

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

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, APRIL 1, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

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

The CHAIRMAN. The committee will come to order.

STATEMENT OF GOV. ROY A. YOUNG—Resumed

The CHAIRMAN. Mr. Goldsborough, when we closed last week, you were asking questions of Governor Young. Do you wish to continue now?

Mr. GOLDSBOROUGH. If it is agreeable.

The CHAIRMAN. Before you begin, however—Governor Young, you have some papers you would like to submit for the record in response to some previous requests for information?

Governor YOUNG. Yes; if I may, Mr. Chairman.

The CHAIRMAN. Suppose you submit them now.

Governor YOUNG. I should like to read this statement into the record, because it contains some figures on which we were in doubt at the last meeting. It covers losses in failed national banks.

Congressman Steagall made the statement at the hearing last Wednesday that the total loss to depositors in national banks since the enactment of the national bank act in 1863 amounted to only about \$80,000,000. The Comptroller of the Currency published a statement in his annual report to Congress for the year ending October 31, 1929, which is incorporated on page 75 of his testimony, and which shows that 815 receiverships paid 70.19 per cent of proven claims; and that, if offsets, loans paid, and other disbursements were included, the total disbursements to creditors would show an average of 79.13 per cent of proven claims. Possibly Congressman Steagall has based his estimate on this percentage of the proven claims.

I have obtained from the Comptroller of the Currency certain information which I wish to insert in the record showing the losses on the basis of actual deposits of failed banks. In this connection I wish to make clear the distinction between the total amount of deposits in failed national banks and the amount of proven claims against failed national banks. There are numerous depositors who do not prove their claims against insolvent banks; and what would otherwise be their share of the dividends paid go to the benefit of those who do prove their claims. For this reason, the total amount of losses must be increased by the difference between the total amount of deposits and the total amount of proven claims. Even this is not absolutely accurate; because the figures given by the

comptroller's office include in the amount of proven claims those proven by secured depositors; whereas, the figures given for total deposits do not include the amount of secured deposits.

The total deposits of the 815 failed national banks fully liquidated to October 31, 1929, were \$312,358,671; whereas the total proven claims amounted only to \$275,449,496. Total dividends paid to creditors, including secured creditors, were \$193,279,863. Thus the total loss to unsecured creditors of these closed trusts on the basis of dividends paid amounted to \$119,078,808.

In addition to the above, there are 448 insolvent national banks in process of liquidation, and the following figures are given with respect to those:

Total deposits of 448 active receiverships.....	\$229, 088, 269
Estimated total dividends to creditors of 448 active receiverships.....	141, 736, 812
Estimated loss to creditors of 448 active receiverships.....	87, 351, 457

Add the estimated losses of depositors and other creditors of national banks now in process of liquidation (\$87,351,457) to losses of depositors and other creditors of national banks completely liquidated (\$119,078,808) and you have total actual and estimated losses to creditors of national banks, amounting to \$206,430,265.

While it is true that, for the banks in liquidation, the figures are estimates; it is safe to assume that the liquidations will not exceed the average for past years. Conditions have been much worse since 1920 than during the prior periods of liquidation, and it would seem reasonable to expect that the average of dividends would be less. Therefore, I believe that the figures for losses given are rather conservative.

If the Federal Government should undertake to set up a depositors guaranty system, applicable to all national banks or to all member banks of the Federal reserve system, it would be so attractive to depositors that every bank in the United States would be compelled either to join that system or to go out of business, with the result that whatever system is devised would be compelled to guarantee all deposits in the United States, or approximately \$58,000,000,000 of deposits. It must also be understood that, in view of the enormous growth in the total deposits of all banks, the annual losses would be much greater than is indicated by the total losses from 1863 to date. This is indicated by the fact that total bank deposits in 1890 amounted to less than \$5,000,000,000, whereas to-day the figure has grown to \$58,000,000,000.

Supplementing the figures as placed in the record on April 1, 1930, with reference to the total amounts of estimated losses to depositors of failed national banks since 1863, I have had compiled estimated figures for total losses to State banks from 1864 to December 31, 1929.

While there are no accurate figures available for losses in State banks, State superintendents up until 1896 reported to the Comptroller of the Currency total liabilities of failed State banks and total dividends paid. On these figures from 1864 to 1896, inclusive, the total liabilities of 1,234 failed State banks were \$220,629,988.27, and the total dividends paid during the same period were \$100,088,726.09, showing a loss of \$120,541,261.32 or 54.64 per cent loss. No figures are given for dividends paid since 1896 but the total liabilities

of failed State banks from 1897 to December 31, 1929, were \$2,130,613,648.27. Using the same percentage of loss for the years 1897 to December 31, 1929, as used for the first 33 years, the total loss from 1897 to 1929 would be \$1,164,167,297.41. Adding to this the loss for the first 33 years, \$120,541,261.32, the total loss for the 66-year period would be \$1,284,708,558.73.

The other day I said I would get a pamphlet that was issued by the New York Stock Exchange in reference to call money. I have secured that and would like to put that in the record at this point, if I may.

The CHAIRMAN. By whom was that prepared?

Governor YOUNG. I think that is prepared by the committee on publicity of the New York Stock Exchange. I referred to it the other day and said there was such a pamphlet.

I was also requested to get a digest of State laws relating to the purchase of corporate stocks by banks and trust companies. I have a preliminary draft of that and I should like to put that in the record at this point.

The CHAIRMAN. Those statements will be received and incorporated in the record at this point.

(The papers referred to are here printed in full, as follows:)

[Reprinted by permission from the New York Times December 23, 1928]

CALL MONEY RATE IS PUZZLE TO MANY

Violent fluctuations recently in the rates of interest charged for funds employed in the stock market have focused attention upon the call money market, particularly as to the method by which the renewal rate is fixed on the New York Stock Exchange. The widespread interest in the subject has been reflected in an increasing number of inquiries received by the exchange from various parts of the country.

That a somewhat general misconception exists concerning the renewal rate is indicated by the questions that are asked at the stock exchange and in brokerage offices. Under normal conditions, when there is no credit stringency, the whole subject of call loans, which are the life blood of the stock market, receives only passing attention from the average trader who looks upon these loans as merely a part of the mechanics of his operations.

For some months, however, the call money market has been a factor of paramount interest to investors and speculators for the reason that the rates of interest have undergone drastic and frequent readjustment, thus exerting a powerful influence upon the trend of prices on the stock exchange. Often the variations between the renewal rate and the rates established later in the day were so wide as to puzzle the new crop of traders in Wall Street.

RENEWAL RATE

The renewal rate, it was pointed out at the stock exchange last week, represents what, in the opinion of a committee of experts, is a fair charge for the renewal of call loans. Borrowers and lenders are not obliged to accept it. If a lender feels that the suggested rate is too low, he is privileged to refuse to renew loans at that figure, and if a borrower considers the rate too high he is at liberty to pay off his loan and arrange a new loan in the call money market.

Wall Street gets its first official information as to the position of the call money market when, at 10.40 o'clock every morning, the renewal rate is announced on the stock ticker. This rate is fixed by the executive committee of the stock clearing corporation, a subsidiary of the stock exchange. The committee is made up of Samuel F. Streit, president of the clearing corporation; E. H. H. Simmons, president of the stock exchange; Robert R. Atterbury, Robert Gibson, and William A. Greer. It arrives at its decision after examining all available data bearing on the supply of funds and the possible borrowing requirements. Fre-

quently, before announcing the rate, the committee consults bankers, officials of other lending institutions and large borrowers.

OPINION OF EXPERTS

"The renewal rate as posted on the floor of the exchange each morning," a spokesman for the institution explained, "is merely the opinion of experts, the demonstrated fairness of which over a period of years has won the confidence of lending bankers and borrowing brokers.

"The present practice of suggesting a renewal rate resulted from the experience of the informal money committee instituted with the full understanding of the Treasury Department during the Government war financing. It was found that the wide and unsettling fluctuations of call-money rates and the confusion and friction which characterized the pre-war call-money market under the old haphazard practice could be avoided by a rate suggested by experts in possession of all pertinent data. So about five and a half years ago, there was formed this committee of experienced men to have before them daily complete information with respect to the supply of loanable funds and the demand therefor, and all other relevant data, and to announce at exactly 10.40 on every full business day their opinion of a fair rate for the renewal of call loans.

"All lending banks in the financial district arrange with one or more stock exchange member firms to handle their call loans on the floor of the exchange. The procedure is for the bank to telephone to the office of the stock exchange member instructions to lend a sum of money at the current or at a specific rate. These instructions are relayed in turn to the money desk on the floor of the exchange, where they are duly recorded. In like manner, the borrowing broker files at the money desk a memorandum stating how much money he requires. Thus lender and borrower meet in their turn and both are promptly notified of the identity of the other party to the transaction by the money clerk of the exchange.

SUBSEQUENT FLUCTUATION

"After the renewal rate has been posted, the rate for new loans may fluctuate with the constantly changing conditions of supply and demand.

"It might be timely to consider the reason for the call-money rate fluctuating more widely than any other money rate in the world, inasmuch as a general misapprehension of this phenomenon has provoked a great deal of criticism.

"Eccentricity seems to be inherent in the interest rate for call loans because it is the resultant of two forces of supply and demand, unrelated in this unique instance. Every contract made on the exchange is completed and the securities are delivered and paid for on the full business day next following. It is thus seen that a day of heavy liquidation on the part of customers of New York Stock Exchange firms will cause a material shrinkage in credit requirements, necessitating the paying off of loans and the recovery of securities to be delivered against the previous day's sales. On the demand side, therefore, we see the possibility of material overnight changes due to either a heavy liquidation of speculatively held securities or a sudden wave of speculative enthusiasm.

DEMAND AND SUPPLY

"Thus on the demand side of the transaction we have the brokers' credit requirements changing from day to day with the constantly shifting speculative position of their customers. The day loan, therefore, is admirably suited to their need of daily adjustment.

"On the other hand the supply of call money is regulated solely by the reserve position of the banks throughout the country and their natural desire to make full use of their lending power right up to the limit set by their reserve requirements and bear no relation to stock market needs. This unresponsiveness of credit supply to demand is peculiar to brokers' loans and is largely due to their exclusion from the Federal reserve rediscount privileges."

President Simmons of the stock exchange in his last annual report drew attention to the "accuracy with which the renewal rates are regularly made," pointing out that in 1927 the "annual average rate on renewed call loans was 4.076 per cent, while the annual average rate on new call loans was 4.084 per cent, thus," he added, "renewal rates were, over the year, within 0.008 of 1 per cent of new loan rates."

DIGEST OF STATE LAWS RELATING TO THE PURCHASE OF CORPORATE STOCKS BY
BANKS AND TRUST COMPANIES*(Preliminary draft, subject to verification)*

There is given below a preliminary draft of a digest of the State laws relating to the power of banks and trust companies to invest in or purchase stocks in other corporations, including stocks in other banks or trust companies. This digest, which shows the status of State legislation dealing with the purchase of corporate stocks by banks and trust companies as of March 1, 1930, was prepared in its present form in the office of the counsel to the Federal Reserve Board and will be submitted to the counsel to the various Federal reserve banks, who are especially familiar with the laws of the States in their respective Federal reserve districts, for a final check as to its accuracy. When the Federal reserve bank counsel have completed their check of the digest, revised copies thereof will be furnished to the Committee on Banking and Currency of the House of Representatives.

The digest does not cover permission granted to banks and trust companies to invest in or purchase stocks in municipal or other public corporations. Federal reserve banks, joint-stock land banks, corporations engaged principally in foreign banking operations, safe-deposit companies, or similar institutions affiliated in some respects with the business of banking.

SUMMARY OF LEGISLATION IN VARIOUS STATES

STATES HAVING LEGISLATION PERMITTING PURCHASE OF CORPORATE STOCKS

By both banks and trust companies:

Arizona.

Connecticut. Amount of purchase limited.

Delaware. Amount of purchase limited.

Louisiana.

New Jersey.

Pennsylvania. Apparent conflict in laws of this State, as other provisions prohibit banks from purchasing stocks.

Tennessee.

Texas. Amount of purchase of bank stock limited.

Utah.

Total, 9.

By banks only:

Alabama. Bank stock only may be purchased and amount limited.

California. Stock of only one trust company may be purchased and amount limited.

Florida. Apparent conflict in laws. Savings banks only may purchase stocks; but other provisions also prohibit them from doing so.

Massachusetts. Savings banks only may purchase stocks in certain trust companies and national banks within certain limitations.

New Hampshire. Savings banks only and savings departments of banks may invest in stocks of banks, trust companies, and certain other corporations, subject to certain limitations.

North Carolina. Purchase restricted to "central reserve bank" and corporation owning land or building used by bank.

Ohio. Savings banks only may purchase stock of certain companies, but not bank or trust company stock.

Rhode Island. Probably authorized by implication to purchase stocks; but savings banks and banks receiving savings deposits specifically authorized to purchase bank, trust company, and steam-railroad stocks.

South Carolina.

Vermont. Amount of purchase limited.

Virginia.

West Virginia. May "invest" in bank stocks.

Total, 12.

By trust companies only:

Arkansas.

Colorado.

Florida. Apparent conflict in laws. Other provisions prohibit purchase of stocks.

Georgia.

By trust companies only—Continued.

- Kansas. Amount of purchase limited.
- Maryland.
- Massachusetts. Amount of purchase limited.
- Missouri. Amount of purchase limited.
- Montana.
- Nebraska.
- New Hampshire. Amount of purchase limited.
- New York. Amount of purchase limited.
- Ohio. All stocks except bank stocks may be purchased.
- Oklahoma. All stocks except bank and trust company stocks may be purchased.
- Rhode Island. Probably authorized by implication to purchase stocks; but savings deposits of trust companies specifically permitted to be invested in bank and trust company and steam-railroad stocks.
- West Virginia. May purchase limited amount in "business corporations" and may purchase bank stocks for "investment."
- Total, 16.

STATES HAVING LEGISLATION PROHIBITING PURCHASE OF CORPORATE STOCKS

By both banks and trust companies:

- Florida. Apparent conflict in laws of this State, as other provisions authorize savings banks and trust companies to purchase corporate stocks.
- Mississippi. Prohibition is against purchase of bank stocks.
- Oregon.
- Ohio. A savings bank, however, can purchase stock in certain "companies," and a trust company in any corporation; but neither can purchase bank or trust company stock.
- South Dakota.
- Washington.
- Total, 6.

By banks proper:

- Colorado.
- Georgia.
- Idaho. Prohibition is against purchase of bank stock.
- Kansas.
- Montana.
- Nebraska.
- Nevada.
- North Dakota.
- Oklahoma.
- Pennsylvania. Apparent conflict in laws of this State, as other provisions authorize "corporations organized for profit" to purchase stocks.
- Wisconsin. No provisions prohibiting banks proper; but mutual savings banks expressly prohibited from investing in corporate stocks.
- Wyoming.
- Total, 12.

By trust companies:

- There do not appear to be any States having legislation prohibiting trust companies alone from purchasing corporate stocks.

STATES HAVING NO SPECIFIC LEGISLATION ON SUBJECT

Covering both banks and trust companies:

- Illinois.
- Indiana.
- Iowa.
- Kentucky.
- Maine. However, purchase of corporate stocks probably authorized by implication.
- Michigan.
- Minnesota.
- New Mexico.
- Wisconsin. No provisions covering banks proper; but mutual savings banks expressly prohibited from investing in corporate stocks.
- Total, 9.

Covering only banks proper:

Arkansas.

Maryland.

Massachusetts. No provisions covering banks proper; but savings banks and trust companies may purchase stocks.

Missouri.

New Hampshire. No provisions covering banks proper; but savings banks and savings departments of banks and trust companies may invest in stocks of banks, trust companies, and certain other corporations, subject to certain limitations.

New York.

Rhode Island. No provisions covering banks proper; but probably can purchase stocks by implication; however, savings banks and savings departments of banks and trust companies may purchase bank, trust company, and steam railroad stocks.

Total, 7.

Covering only trust companies:

Alabama.

California.

Idaho.

Nevada.

North Carolina.

North Dakota.

South Carolina.

Vermont.

Virginia.

Wyoming.

Total, 10.

ALABAMA

Purchase of bank stock permitted if not in excess of 25 per cent of purchasing bank's capital and 10 per cent of other bank's capital.—" * * * No bank shall subscribe for or own exceeding 10 per cent of the capital stock of any other bank, or invest or have invested an amount exceeding in the aggregate 25 per cent of its own paid-in capital stock in the capital stock of any other bank or banks. Any bank acquiring capital stock in any other bank in the usual course of business in payment of an indebtedness owing to it, must sell such portion of said stock as is in excess of the amount which it is permitted to hold and own as herein provided within one year from the time the same is acquired. Any bank failing to sell any such excess stock within the time herein directed, shall forfeit to the State an amount equal to the face value of such excess stock held by it, which sum the superintendent shall sue to recover in the name of the State in any court having jurisdiction, and the amount recovered shall be paid into the State treasury." (Civil Code of Alabama, sec. 6355; Combined Banking Laws of Alabama, 1928, sec. 6355, p. 25.)

ARIZONA

Purchase of bank or trust company stocks permitted.—"No bank, loan, or trust company or association, organized under the laws of the State of Arizona, may purchase, own, hold, and sell or otherwise dispose of any of the shares of the capital stock of any other bank, loan, or trust company or association or other corporation; unless, such purchase shall be authorized by the executive committee or approved by the board of directors; and in case the purchase is of stock in any other banking corporation the approval of said purchase must also be had from the superintendent of banks." (Laws of 1922, ch. 31, sec. 20, p. 130; Banking Laws, 1922, sec. 20, p. 17.)

Savings banks are prohibited "to invest or loan any of its capital, or any of the money of its depositors in the shares, stocks, or bonds of any mine or mining company or oil company." (Laws of 1922, ch. 31, sec. 26 (8), p. 134; Banking Laws, 1922, sec. 26 (8), p. 20.)

ARKANSAS

Banks—no specific statutory provisions.—There are no statutes in this State specifically authorizing banks to purchase the kinds of corporate stocks covered by this digest. However, "no bank shall employ its moneys, directly or indirectly, in trade or commerce by buying and selling goods, chattels, wares, and merchandise, nor be the purchaser or holder of its own capital stock, unless such security

or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within 12 months of its purchase, be sold or disposed of at private sale; after the expiration of said 12 months any such stock shall not be considered as part of the assets of any bank: *Provided*, That it may hold and sell all kinds of property that may come into its possession as collateral security for loans or any ordinary collection or debts, in the manner provided by law. *Provided further*, That any goods or chattels coming into its possession as aforesaid shall be disposed of as soon as possible, and after twelve months from the date of acquirement shall cease to be reckoned as a part of its assets." (C. & M. Dig., sec. 695; Banking Laws, 1929, sec. 26, p. 18.)

Trust companies—Purchase of stocks permitted.—Trust companies are authorized "to buy and sell all kinds of * * * stocks, and other investment securities." (Act of April 13, 1903, sec. 2, p. 228, as amended by acts of 1923, act 627, sec. 10; Banking Laws, 1929, sec. 135 (9), p. 102.)

CALIFORNIA

Banks—general power to purchase corporate stocks denied.—"No bank shall, except as otherwise provided in this act, purchase or invest its capital or surplus or money of its depositors, or any part of either, in the capital stock of any corporation unless the purchase or acquisition of such capital stock shall be necessary to prevent loss to the bank on an obligation owned or on a debt previously contracted in good faith. Any capital stock so purchased or acquired shall be sold by such bank within six months thereafter if it can be sold for the amount of the claim of such bank against it; and all capital stock thus purchased or acquired must be sold for the best price obtainable by said bank within three years after such purchase or acquisition unless the superintendent of banks shall extend the time of its sale for a period not to exceed two years." (General Laws, 1923, Act No. 652; bank act, 1929, sec. 37, p. 36.)

Exception—Stock in one trust company.—"Any bank, with the previous written consent of the superintendent of banks, may purchase or otherwise acquire and hold the whole or any part of the capital stock of not more than one trust company organized and existing under the laws of this State, and doing business in the same county in which the principal place of business of such bank is located: *Provided, however*, That not more than an amount equal to 25 per cent of the capital and surplus of any such bank may be at any one time invested in the capital stock of such trust company or such other corporation." (General Laws, 1923, Act No. 652; bank act, 1929, sec. 37, p. 36.)

COLORADO

Banks may not purchase corporate stocks.—"No bank shall purchase its own stock, nor the stock of any other corporation, except such as it may necessarily acquire in the protection or satisfaction of previously existing loans made in good faith. Any stock so acquired shall be sold by the bank within three years, and sooner if it can be done without impairing the bank's investment in the same." (Compiled Laws of Colorado, 1921, sec. 2683; Banking Laws, 1928, sec. 33 p. 19.)

Trust companies authorized to buy and sell stocks.—"All trust companies incorporated under the provisions of this act are duly authorized:

* * * * *

"Seventh. To purchase, invest in and sell stocks * * *." (Compiled Laws of Colorado, 1921, sec. 2765; Banking Laws, 1928, sec. 128, p. 66.)

CONNECTICUT

Purchase of corporate stocks permitted up to certain amount.—Banks and trust companies "* * *" may purchase and hold corporate securities of any description, provided the total amount at the purchase price invested in corporate stocks shall at no time exceed 25 per cent of its combined capital, surplus, and undivided profits, and provided its investment in the stock of any one corporation shall not exceed 10 per cent of the stock of that corporation or exceed 10 per cent of the percentage prescribed herein, whichever may be the greater. * * *" (General Statutes of Connecticut, sec. 3955, as amended by Laws of 1927, ch. 251; Banking Laws, 1929, sec. 3955, p. 9.)

Savings banks and banks and trust companies maintaining savings departments may make limited investments of their savings deposits in the stocks of

certain banks located in the State of Connecticut and certain cities in other States. (General Statutes of Connecticut, sec. 3928, and sec. 3972 (27) as amended by Laws of 1929, ch. 279; Banking Laws, 1929, sec. 3928, p. 20; and sec. 3972 (27), p. 52.)

DELAWARE

Banks and trust companies may purchase stock.—"No bank or trust company shall invest more than 25 per cent of its total capital, surplus, and undivided profits in the stock, bonds, or other obligations of any one corporation or political entity or political division except bonds or other obligations of the United States, of the State of Delaware, or of any county, city, town, or school district in this State." (Act of March 31, 1921, sec. 13; Banking Laws, 1929, p. 26.)

FLORIDA

Banks and trust companies may not purchase stock.—"That it shall be unlawful for any bank or trust company organized under the laws of this State and doing business in this State, to directly or indirectly invest any of the funds of said bank or trust company in stock of any incorporated company in this State or elsewhere * * *." (Compiled General Laws of Florida, 1930 Supplement, sec. 6084.)

Savings banks may purchase bank stock.—"The capital and deposits and the income derived therefrom shall be invested only as follows:

* * * * *

"4. In the stock of any bank incorporated under the authority of the State, or the stock of any banking association incorporated under the authority of the United States * * *." (Compiled General Laws of Florida, 1927, sec. 6120; Banking Laws, 1926, p. 30.)

Trust companies may purchase stocks.—"Every trust company organized under and in pursuance of this article shall have power:

* * * * *

"(10) To purchase, invest in, and sell stocks * * *." (Compiled General Laws of Florida, 1930 Supplement, sec. 6126 (10).)

NOTE.—It will be observed that apparently there is a conflict in the laws of this State with reference to the power of trust companies to purchase stocks. An explanation of this apparent conflict has been requested of the counsel to the Federal Reserve Bank of Atlanta, in whose district the State of Florida is situated.

GEORGIA

Banks may not purchase stock.—"No bank shall subscribe for, purchase, or hold stock in any other bank * * * nor in any other corporation unless the same shall have been transferred to it in satisfaction of a debt previously contracted, or shall have been purchased at a sale under a power contained in a note or other instrument by which it was pledged to the bank or under a judgment or decree in its favor, and all such stock shall be disposed of by the bank within six months, unless the superintendent of banks shall extend the time for good cause shown. * * *." (Georgia Code, 1930 Supplement, sec. 2366 (169).)

Trust companies may purchase stock.—"Dealing in stocks and bonds: Trust companies, operating as investment bankers, and maintaining departments for the purchase and sale of securities, may purchase for resale whole issues or parts of issues of stocks, bonds and debentures of industrial, railroad and public service corporations and other investment securities, and may resell and deal in the same, under such regulations as may be prescribed by the superintendent of banks." (Trust company act of 1927, sec. 5A.)

IDAHO

Purchase of bank stock prohibited.—"No bank shall * * * purchase any shares of * * * any other bank wherever organized, or situated * * * unless such * * * purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased * * * shall within six months from the date of acquirement be sold or disposed of at public or private sale; after the expiration of six months any such stock shall not be considered as a part of the assets of such bank." (Laws of 1925, ch. 133, p. 204; Bank Code, 1925, sec. 29, p. 18.)

ILLINOIS

No statutory provisions.—The statutes of Illinois contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

INDIANA

No statutory provisions.—The laws of Indiana contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

IOWA

No statutory provisions.—There do not appear to be statutory provisions in this State authorizing banks and trust companies generally to purchase corporate stocks. Banks and trust companies, however, are empowered "to purchase, invest in, and sell promissory notes, bills of exchange, bonds, mortgages, and other securities." (Iowa Code, 1927, sec. 9284 (5); Banking Laws, 1929, sec. 9284 (5), p. 47.)

KANSAS

Banks may not purchase corporate stocks.—"No bank shall employ its moneys, directly or indirectly, in trade or commerce, by buying and selling goods, chattels, wares and merchandise, and shall not invest any of its funds in the stock of any other bank or corporation * * *." (Session Laws of Kansas, 1927, p. 126; Banking Laws, 1929, sec. 11, p. 6.)

Trust companies authorized to purchase stock.—"The purposes for which trust companies may be formed are:

* * * * *

"Eighth, * * * to buy and sell all kinds of Government, State, county, municipal, and corporation bonds, and all kinds of negotiable and nonnegotiable paper, securities, and stocks: *Provided*, That the total investment of any such trust company in bank stock shall at no time exceed one-fourth its paid-up capital stock: * * * *Provided*, That the total investment in bank stock held by any trust company in excess of one-fourth of its capital shall be disposed of within two years from the passage of this act." (Laws of Kansas, 1901, ch. 407, as amended; Banking Laws, 1929, sec. 2, pp. 38 and 39.)

KENTUCKY

No statutory provisions.—The laws of Kentucky contain no specific provisions with reference to the purchase of corporate stocks by banks or trust companies. With reference to banks, the law does provide that no bank shall employ its moneys, directly or indirectly, in any enterprise or business except as authorized by law. (Carroll's Kentucky Statutes, 1930, secs. 579 and 582; Banking Laws, 1926, secs. 579 and 582.)

Trust companies are not authorized expressly to purchase corporate stocks, but the law does provide that "the capital stock of a trust company, and the funds in its possession, not held in a fiduciary capacity, may be invested in such manner as the directors deem prudent and safe; * * *." (Carroll's Kentucky Statutes, 1930, secs. 606 and 614; Banking Laws, 1926, secs. 606 and 614.)

LOUISIANA

Purchase of any corporate stocks permitted.—Any corporation "conducting a savings, safe deposit, and trust banking business in any of its branches" is empowered "to receive, hold, purchase, acquire, and convey, by and under their corporate name, such property, real and personal, including bonds, stocks, and securities of the United States, or of any of the United States, or of any corporation, board, or body, public or private thereof, as may be necessary, proper, or convenient to the objects of the association, and to exercise in relation thereto, all the direct and incidental rights of ownership." (Laws of 1902, Act. No. 45, sec. 1 (2), p. 59; Banking Laws, 1928, sec. 1 (2), p. 26.)

The act approved July 18, 1928 (Act No. 221, Session Laws of 1928), which has to do with the manner of arriving at the value of shares of stock of banking institutions for taxation purposes, recognizes that banking institutions have the power to purchase stocks in other corporations. In dealing with the various deductions that a banking institution may make, this act provides that "the capital stock and obligations of any corporations, all the capital stock of

which * * * is owned by said bank, banking company, firm, association, or corporation" may be deducted.

MAINE

No express authorization but apparently purchase permitted by implication.—The laws of Maine do not contain any provisions expressly authorizing banking institutions to purchase corporate stocks, but the following provision appears to give them such power by implication: "to hold and enjoy all such estate, real, personal, and mixed, as may be obtained by the investment of its capital stock or any other moneys and funds that may come into its possession in the course of its business and dealings, and the same sell, grant, and dispose of: * * *." (Public Laws 1923, ch. 144, sec. 61; Banking Laws, 1927, sec. 61, p. 41.)

MARYLAND

Purchase of corporate stocks permitted to trust companies.—Trust companies are given the power "to exercise, by its directors, duly authorized officers, or agents, all such powers as shall be usual in carrying on the business of banking. * * * by purchasing, investing in, and selling stocks, * * * and other securities * * *." (Bagby's Code, article 11, sec. 46; Banking Laws, 1927, sec. 46 (9), p. 23.)

MASSACHUSETTS

Purchase of corporate stocks by trust companies permitted.—A trust company may "* * * invest its moneys or credits, whether capital or general deposits, in the stocks, bonds, or other evidences of indebtedness of corporations or of associations or trusts, * * *." (General Laws, ch. 172, sec. 33; Trust Company Pamphlet Laws, sec. 33, p. 21.)

Limitation upon purchase of stock in other trust companies.—"No trust company shall hold more than 10 per cent of the capital stock of any other trust company." (General Laws, ch. 172, sec. 43; Trust Company Pamphlet Laws, sec. 43, p. 23.)

Savings banks may purchase bank stocks.—Savings banks may invest their deposits and income derived therefrom—

"In the stock of a trust company incorporated under the laws of and doing business within this Commonwealth, or in the stock of a national banking association located in the New England States and incorporated under the authority of the United States, which has paid dividends of not less than 4 per cent therein in cash in each of the five years next preceding the date of such investment and the amount of whose surplus is at least equal to 50 per cent of its capital; but a savings bank shall not hold, both by way of investment and as security for loans, more than 25 per cent of the stock of any one such company or association, nor shall it hold by way of investment stock of such companies and associations having an aggregate initial cost in excess of 15 per cent of the deposits of such savings bank, or stock of any one such company of association having an initial cost in excess of 1 per cent of the deposits aforesaid." (General Laws, ch. 168, sec. 54, (7th), as amended by acts of 1929, ch. 315, sec. 1; Savings Bank Pamphlet Laws, sec. 54 (7th), p. 39.)

MICHIGAN

No statutory provisions.—The statutes of Michigan contain no provisions authorizing or prohibiting banks or trust companies to purchase the capital stock of other corporations.

MINNESOTA

No statutory provisions.—The laws of Minnesota contain no provisions authorizing or prohibiting banks or trust companies to purchase corporate stocks.

MISSISSIPPI

Purchase of bank stock prohibited.—"No part of the stock of any bank * * * shall be owned by any bank under the provisions of this act. Any such stock owned by any bank at the time this act takes effect shall be disposed of within 12 months after such time. In cases where such stock is taken as collateral and the purchase thereof shall be necessary to prevent loss upon a debt previously contracted in good faith, then in such cases such stock shall be sold by the bank within 12 months from the time that it was required. A violation of this section by any bank or banks under the provisions of this act shall be constituted a breach of law and subject any such bank or banks to liquidation and forfeit

of their respective charters." (Laws of Mississippi, 1922, ch 172, sec. 49; Brown's 1925 Mississippi and Federal Statutes Pertaining to Banks and Banking p. 71.)

The term "bank" as used in the laws of Mississippi includes trust companies and savings banks. (Laws of Mississippi 1914, ch. 124, sec. 66; Brown's 1925 Mississippi and Federal Statutes Pertaining to Banks and Banking, p. 72.)

MISSOURI

Purchase by trust companies of corporate stock limited.—A trust company "shall not invest or keep invested in the stock of any private corporation an amount in excess of 15 per cent of the capital and surplus fund of such trust company; nor shall it purchase or continue to hold stock of another bank or trust company if by such purchase or continued investment the total stock of such other bank or trust company owned and held by it as collateral will exceed 15 per cent of the stock of such other bank or trust company: *Provided, however,* That this limitation shall not apply * * * to the ownership by such trust company or its stockholders of a part or all of the capital stock of one bank organized under the laws of the United States or of this State." (Revised Statutes of Missouri, 1919, sec. 11807, as amended by Laws of 1927, p. 241.)

There are no statutory provisions in this State governing the purchase of corporate stocks by banks; and the Missouri courts have held that in the absence of express authority, one bank can not purchase the shares of stock of another bank.

MONTANA

Banks prohibited from purchasing stock.—"No commercial or savings bank shall purchase or invest its capital or surplus, or money of its depositors, or any part of either, in the capital stock of any corporation, unless the purchase or acquisition of such capital stock shall be necessary to prevent loss to the bank on a debt previously contracted in good faith. Any capital stock so purchased or acquired shall be sold by such bank within six months thereafter, if it can be sold for the amount of the claim of such bank against it; and all capital stock thus purchased or acquired must be sold for the best price obtainable by said bank within one year after such purchase or acquisition. Every person or corporation violating any provision of this section shall forfeit to the State twice the nominal amount of such stock." (Laws of Montana, 1927, ch. 89, sec. 39; Banking Laws, 1927, sec. 39, p. 32.)

Trust companies authorized to purchase stock.—The laws of Montana authorize the organization of trust companies which may invest in corporate stocks and other securities and also provides as follows: "The board of directors of any such corporation [trust company] is authorized to invest the capital and assets of said corporation * * * in * * * stocks and bonds of corporations * * *." (Laws of Montana, 1927, ch. 89, sec. 4 (c) (8) and sec. 26; Banking Laws, 1927, sec. 4 (c) (8) and sec. 26.)

Investment companies may purchase stocks.—The laws of Montana authorize the formation of investment companies with the power to receive deposits. These companies are authorized to buy and sell stocks as well as other securities. (Laws of Montana, 1927, ch. 89, sec. 4 (d); Banking Laws, 1927, sec. 4 (d).)

NEBRASKA

Banks—Purchase of corporate stocks prohibited.—"No corporation transacting a banking business shall * * * be the purchaser or holder of * * * the shares of any corporation, unless such * * * purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and such stock so purchased or acquired shall, within six months from the time of its purchase be sold or disposed of at public or private sale; or in default thereof, a receiver may be appointed to close up the business of the bank: *Provided,* In no case shall the amount of stock so held exceed 10 per cent of the paid-up capital of such bank." (Comp. Stat. of Nebraska, 1922, sec. 8006; Banking Laws, 1929, sec. 8006, p. 12.)

Trust companies—Purchase of corporate stocks permitted.—Trust companies have the power "to buy, hold and own and sell * * * stocks, * * * and other investment securities." (Comp. Stat. of Nebraska, 1922, sec. 8008, as amended by Laws of 1927, act approved April 20, 1927.)

NEVADA

Purchase of corporate stocks prohibited.—“No bank shall employ its moneys, directly or indirectly, in trade or commerce by buying or selling goods, chattel wares, or merchandise, and shall not invest any of its funds in the stock of any bank or trust company or corporation, * * *” (Revised Laws of 1912, sec. 13, p. 195, as amended, Laws of 1915, p. 32; Banking Laws, 1927, sec. 13, p. 7)

NEW HAMPSHIRE

Purchase of corporate stocks permitted.—Trust companies are authorized and empowered “to negotiate, purchase, and sell stocks, bonds, and other evidences of debt; to do a general banking business; and to conduct a savings department.” (Public Laws, ch. 265, sec. 31; Banking Laws, 1929, sec. 31, p. 41)

Limitation upon such purchase.—“The total liabilities of a person, firm or corporation, including in the liabilities of a firm the liabilities of its several members, for money borrowed of the commercial department of a trust company or other corporation of a similar character, whether organized under the provisions of this chapter or otherwise, shall at no time exceed 10 per cent of its capital stock actually paid in and surplus, nor shall such corporation purchase or hold, by way of investment, the stocks and bonds of any corporation to an amount in excess of said 10 per cent.” (Public Laws, ch. 265, sec. 37; Banking Laws, 1929, sec. 37, p. 42.)

Savings banks and savings departments of banks and trust companies.—Subject to certain limitations, savings banks and savings departments of banking and trust companies may invest in the capital stock of banks, trust companies and certain other corporations. However, such investments are limited, in the case of any one corporation, to 5 per cent of the deposits of the purchasing savings banks or savings departments of banking and trust companies. (Public Laws, ch. 260, sec. 16, ch. 262, secs. 1, 7, 8, 9, 12, 13, 14, 15; Banking Laws, 1929, sec. 16, p. 7; secs. 1, 7, 8, 9, 12, 13, 14, 15, and pp. 20, 23–29)

NEW JERSEY

Banks and trust companies authorized to purchase corporate stocks.—Banks “in addition to the power and authority now conferred upon them, shall be authorized to purchase, invest in and sell stocks of corporations.” (Laws of 1927, ch. 12; Banking Laws, 1928, sec. 10, p. 54.)

Trust companies are authorized “to purchase, invest in and sell stocks * * * and other securities; * * *.” (Laws of 1899, ch. 174, sec. 6 (10); Banking Laws, 1928, sec. 6 (10), p. 66.)

NEW MEXICO

No statutory provisions.—There do not appear to be any provisions in the laws of New Mexico expressly permitting or prohibiting banks and trust companies to purchase corporate stocks. Trust companies, however, are authorized “* * * to purchase, invest in, and sell all kinds of * * * investment securities.” (Laws of 1915, ch. 67, sec. 60 (7); Bank Code, 1929, sec. 60 (7), p. 22); and with reference to banks, the laws of New Mexico provide that “* * * no bank shall at any time have invested more than 30 per cent of its unimpaired capital and surplus in the notes, bonds or other securities of any person, firm or corporation * * *.” (Laws of 1929, ch. 131, sec. 9; Bank Code, 1929, sec. 36, p. 15.)

NEW YORK

Trust companies permitted to purchase stocks.—“* * * every trust company shall, subject to the restrictions and limitations contained” the laws, have the power “to purchase, invest in, and sell stocks * * * and other securities; * * *.” (Banking Law, sec. 185 (9)).

Limitation upon purchase of corporate stocks.—A trust company “shall not invest or keep invested in the stock of any private corporation an amount in excess of 10 per cent of the capital and surplus of such trust company; nor shall it purchase or continue to hold stock of another moneyed corporation if by such purchase or continued investment the total stock of such other moneyed corporation owned and held by it as collateral will exceed 10 per cent of the stock of such other moneyed corporation, provided, however, that this limitation shall not apply to

the ownership of, and such trust company may to the extent of 10 per cent of its capital and surplus purchase, acquire, hold and own, and exercise in respect thereof all the rights, powers, and privileges applicable to the ownership of, * * * all or any part of the capital stock of an investment company * * *." (Banking Law, sec. 190.)

Banks—No statutory provisions, but purchase generally of corporate stocks held prohibited.—There are no provisions in the laws of New York expressly permitting or prohibiting the purchase of the kinds of corporate stocks contemplated by this digest. The only provisions affecting banks are those authorizing the purchase of Federal reserve bank stock and stock in safe-deposit and investment companies. (Banking Law, sec. 106.)

The banking department of the State of New York holds that banks have no authority to buy stocks other than those classes above referred to, and the courts in this State have rendered decisions to the effect that banks can not purchase stocks of other corporations for the purpose of selling at a profit, can not become stockholders in a railroad corporation, and can not purchase State stocks to sell at a profit.

NORTH CAROLINA

Banking institutions may purchase corporate stocks and certain bank stocks.—“No bank shall make any investment in the capital stock of any other State or national bank: *Provided*, That nothing herein shall be construed to prevent the subscribing to or purchasing of the capital stock of * * * central reserve banks, having a capital stock of more than \$1,000,000, by banks doing business under this act, upon such terms as may be agreed upon. To constitute a central reserve bank as contemplated by this act at least 50 per cent of the capital stock of such bank shall be owned by other banks.” (Ann. Code of North Carolina, 1927, sec. 220 (c); Banking Laws, 1927, sec. 220 (c), p. 20.)

Limitations upon purchase of stock.—“The investment of any bank in the capital stock of such central reserve bank * * *, shall at no time exceed 10 per cent of the paid-in capital and permanent surplus of the bank making same. No bank shall invest more than 50 per cent of its permanent surplus in the stocks of other corporations, firms, partnerships, or companies, unless such stock is purchased to protect the bank from loss. Any stocks owned or hereafter acquired in excess of the limitations herein imposed shall be disposed of at public or private sale within six months after the date of acquiring the same, and if not so disposed of they shall be charged to profit and loss account, and no longer carried on the books as an asset. The limit of time in which such stocks shall be disposed of or charged off the books of the bank may be extended by the corporation commission, if in its judgment it is for the best interest of the bank that such extension be granted.” (Ann. Code of North Carolina, 1927, sec. 220 (c); Banking Laws, 1927, sec. 220 (c) p. 20.)

Corporation commission may suspend limitations on amount may purchase.—“The board of directors of any bank may, by resolution duly passed at a meeting of the board, request the corporation commission to temporarily suspend the limitation on loans and investments as same may apply to any particular loan or investment, which said bank desires to make in excess of the provisions of sections 220 (b), 220 (c) * * * of this act. Upon receipt of a duly certified copy of such resolution, the corporation commission may, in its discretion, suspend the limitation on loans and investments in so far as it would apply to the loan or investment which such bank desires to make.” (Ann. Code of North Carolina, 1927, sec. 220 (e); Banking Laws, 1927, sec. 220 (e), p. 21.)

Purchase of stock of corporation owning land or building used by bank.—A bank may invest “50 per cent of its unimpaired capital and permanent surplus in the stock or bonds of a corporation owning the land, building, or buildings occupied by such bank as its banking home” and a bank may not be compelled “to surrender or dispose of any investment in the stocks or bonds of a corporation owning the lands or building occupied by such bank as its banking home, if such stocks or bonds were lawfully acquired prior to the ratification of this act: *Provided further, however*, That the corporation commission may, in its discretion, authorize banks located in cities having a population of more than 5,000 according to the latest United States census to invest an amount greater than 50 per cent of its unimpaired capital and permanent surplus in the stocks or bonds of a corporation owning the land, building, or buildings occupied by such bank as its banking home.” (Ann. Code of North Carolina, 1927, sec. 229 (b); Banking Laws, 1927, sec. 220 (b), p. 20.)

NORTH DAKOTA

Purchase of corporate stocks by banks prohibited—"No bank shall * * * employ or invest any of its assets or funds in the stock of any corporation, bank, partnership, firm, or association, nor shall it invest any of its assets in speculative margins of stocks, bonds, * * *." (Supplement to 1913 Comp. Laws of North Dakota, sec. 5187; Banking Laws, 1929, p. 25)

OHIO

Banks (other than savings banks) not permitted to purchase corporate stocks of kinds covered by this digest.—Banks, other than savings banks, are authorized to make certain investments of their capital, surplus, undivided profits and deposits in certain securities, stocks and bonds, but apparently they are not authorized to make investments in the kinds of corporate stocks contemplated by this digest. (Throckmorton's Code of 1929, secs. 710-111, 710-111a, 710-121; Banking Laws, 1928, secs. 710-111, 710-111a, 710-121)

Savings banks—Purchase of bank stocks forbidden, but "stocks of companies" may be purchased.—A savings bank is empowered to invest its funds in "stocks of companies, upon which or the constituent companies comprising the same, dividends have been earned and paid for five consecutive years next prior to the investment and stocks of companies taken on a refinancing plan involving an original investment, which was legal at the time it was made; provided, every such investment shall be authorized by an affirmative vote of a majority of the board of directors of such savings bank" but "no purchase or investment shall be in the stock of any other corporation organized or doing business under the provisions of this act or of the national banking act of the United States." (Act approved April 18, 1929, Laws of 1929, sec. 710-140 (b).)

Trust companies—Purchase of bank stocks prohibited, but other corporate stocks may be purchased.—"A trust company may invest in * * * stocks and bonds of corporation when authorized by the affirmative vote of the board of directors, or of the executive committee of such trust company," but the prohibition against savings banks purchasing bank stocks is also imposed upon trust companies. (Throckmorton's Code of 1929, sec. 710-166; Banking Laws, 1928, sec. 710-166, p. 64.)

OKLAHOMA

Banks—Purchase of any kind of corporate stock prohibited.—A bank "shall not invest any of its funds in the stock of any other bank or corporation * * *." (Oklahoma Comp. Stat., 1921, sec. 4123; Banking Laws, 1926, sec. 11, p. 15.) The constitution of Oklahoma also provides that "No trust company, or bank or banking company shall own, hold, or control in any manner whatever, the stock of any other trust company or bank or banking company, except such stock as may be pledged in good faith to secure bona fide indebtedness, acquired upon foreclosure, execution sale, or otherwise for the satisfaction of debt; and such stock shall be disposed of in the time and manner hereinbefore provided" (within 12 months from the date of acquisition). (Constitution of Oklahoma, art. 9, sec. 41.)

Trust companies—May purchase any kind of stock, except in a bank or in another trust company.—Trust companies are given the power "to buy and sell * * * all kinds of * * * stocks and other investment securities." (Oklahoma Comp. Stat. 1921, sec. 4194 (9); Banking Laws, 1926, sec. 119 (9), p. 64.)

In view of the above provision of the Oklahoma constitution prohibiting a trust company to "hold or control in any manner whatever, the stock of any other trust company or bank or banking company," it would seem that the power given to trust companies to "buy and sell * * * all kinds of * * * stocks, and other investment securities, is restricted in so far as the provisions of the Oklahoma Constitution are applicable.

OREGON

Purchase of corporate stocks prohibited.—Except for the authority to purchase Federal reserve bank stock, stock in safe deposit companies, agricultural and livestock finance companies, and in the case of a trust company, stock in a subsidiary investment company, the laws of Oregon provide that "Hereafter no bank or trust company shall invest any of its assets in the capital stock of any other corporation." In case stock is purchased or acquired to save loss on a preexisting debt, such stock must be sold "within 12 months of the date acquired or pur-

chased or within such further time as may be granted by the superintendent of banks". (Laws of 1925, ch. 207, sec 81, p. 336; Banking Laws, 1925, sec 81, p. 28.)

PENNSYLVANIA

Banks not authorized to purchase corporate stocks.—" * * * it shall not be lawful for such corporations (banks), directly, or through the agency of any person or persons whomsoever, either in trust or confidence, to deal or trade with any profits, stocks, moneys or effects, in buying or selling any goods, wares, merchandise, whatsoever; * * * such corporations shall not be at liberty to purchase any stock whatsoever to a greater amount than one-third of the capital stock actually paid in; and that in the stocks or loans of this State and of the United States, except their own bank stock and such stocks as shall be taken in satisfaction of debts previously contracted, such corporations shall not deal or trade in anything but bills of exchange, promissory notes, gold and silver, and bullion, or in the sale of goods truly pledged for money lent and not redeemed in due time, or in goods which may be the produce of lands." (Act of 1850, Public Laws, p. 477; West's Penna. Statutes, 1920, sec. 1358.)

With regard to the purchase of corporate stocks by banks, the Pennsylvania laws also provide "The several banks of this Commonwealth are hereby authorized to negotiate loans to, or to purchase the stock of, this Commonwealth from the officers or agents appointed under the authority of the State to effect such loans, or to sell such stock; but nothing in this act or any other law shall be construed to authorize any of said banks to make such purchases of any individual or corporation, except such as shall be taken in satisfaction of debts previously contracted in the course of its dealings: *Provided*, That the amount of such loans made, or stock so held, shall not exceed one-third of the actual capital stock of such bank or corporation: *And provided also*, That the said banks may sell out such stocks at any time their interest may require." (Act of April 23, 1829, Public Laws, p. 360; West's Penna. Statutes, 1920, sec. 1363.)

Corporations permitted to purchase corporate stocks.—"That hereafter any corporation organized for profit, created by general or special laws, may purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of, the shares of the capital stock * * * of any other corporation or corporations, public or private, of this or any other State * * * and while the owner of said stock may exercise all the rights, powers, and privileges of ownership, including the right to vote thereon." (Act of July 2, 1901, Public Laws, p. 603 (West's Penna. Statutes, 1920, sec. 5785), as amended by acts of March 27, 1929, Public Laws, p. 74, and April 18, 1929, Public Laws, p. 544.)

NOTE.—It will be observed that apparently there is a conflict in the laws of this State with reference to the right of banks to purchase corporate stocks. An explanation of this apparent conflict has been requested of the counsel to the Federal Reserve Bank of Philadelphia.

RHODE ISLAND

Purchase by trust companies permitted by implication.—The laws of Rhode Island do not contain any express authority for trust companies to purchase corporate stocks, but it would seem that this power is given to such companies by implication. A trust company is authorized " * * * to invest its capital stock and moneys in its hands in such bonds, obligations, or property, real, personal, or mixed, as it may deem prudent, * * * " (General Laws, 1923, ch. 271, sec. 4; Banking Laws, 1929, sec. 4, p. 16.)

Savings banks and banks and trust companies receiving savings deposits—Purchase of steam railroad and bank stocks permitted.—Deposits in savings banks and in the savings departments of banks and trust companies, and in the case of savings banks, the income derived from investments held, may be invested subject to detailed limitations in the capital stock of banks and trust companies and certain steam railroad companies. (General Laws. 1923, sec. 1, Clause IV, Clause VII, as amended by laws of 1927, ch. 1034, Clause XIV, Clause XV, as amended by the laws of 1925, ch. 653; Banking Laws, sec. 1, p. 22, Clause IV, p. 30, Clause VII, p. 37, Clause XIV, p. 43, Clause XV, pp. 44-45.)

SOUTH CAROLINA

Banking corporations may deal in corporate stocks.—"Every banking corporation may * * * deal in * * * public and other securities, and stocks of other corporations; * * * may purchase and hold such * * * personal property as may be conveyed to it to secure debts to the corporation, or may be sold under execution to satisfy debts due in whole or in part to the corporation, and as may be deemed necessary or convenient for the transaction of its business, and may sell and dispose of the same at pleasure; * * *." (Code of 1922, sec 3992; Banking Laws, 1928, sec. 62, p. 29.)

SOUTH DAKOTA

Banks prohibited from purchasing corporate stocks.—"No bank shall employ its money, directly or indirectly, in trade or commerce by buying or selling goods, chattels, wares, and merchandise, nor shall it invest any of its funds in the stock of any other bank or corporation, nor make loans or discounts on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; stocks so purchased or acquired shall, within six months of the time of its purchase, be sold or disposed of at public or private sale; and after the expiration of six months any such stock shall not be considered as part of the assets of such bank." (Session Laws of South Dakota, 1919, ch. 125; Banking Laws, 1927, sec. 8983, p. 27.)

Trust companies prohibited from purchasing corporate stocks.—"No trust company shall employ its money, directly or indirectly, in trade or commerce, by buying or selling goods, chattels, wares, and merchandise, nor shall it invest any of its funds in the stock of any other trust company or corporation, nor make any loans or discounts on the security of the shares of its own capital stock, nor be the purchaser or holder of any shares unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months of the time of its purchase, be sold or disposed of at public or private sale; and after the expiration of six months any such stock shall not be considered as a part of the assets of any trust company." (South Dakota Code, 1919, sec 9050; Banking Laws, 1927, sec 9050, p. 68.)

TENNESSEE

All corporations authorized to deal in stocks—"That all private corporations now existing or organized by virtue of the laws of Tennessee, and all private corporations hereafter to be organized and created according to law, for the transaction of any lawful business, or to promote or conduct any legitimate object or purpose, shall have the right, power, privilege, and immunity to purchase, hold, own, sell, transfer, assign, vote, mortgage, pledge, and otherwise deal in stock, bonds, or evidence of indebtedness of other corporations in the same manner and with all the rights, power, privileges, and immunities of individual owners, except that this act shall in no way be construed to give corporations power to create unlawful monopolies, trusts, or combinations in restraint of trade." (Act approved March 31, 1923.)

TEXAS

Purchase of corporate stocks permitted—Banks and trust companies may purchase, invest in, and sell stocks and other securities (Rev. Stat. 1925, arts. 396 (9) and 1513; Banking Laws, 1929, art. 396 (9), p. 18, and art. 1513, p. 76.)

Limitation upon purchase of bank stocks—"It shall be unlawful for any State bank or bank and trust company to own more than 10 per cent of the capital stock of any other banking corporation, or to make a loan secured by the stock of any other banking corporation, if by the making of such loan the total stock of such other banking corporation held by it as collateral will exceed, in the aggregate, 10 per cent of the capital stock of such other banking corporation, unless the ownership or the taking of a greater percentage of such capital stock as collateral shall be necessary to prevent loss upon a debt previously contracted in good faith; and any such excess so taken as collateral or owned by such bank shall not be held as collateral nor owned by it for a longer period than six months." (Rev. Stat. 1925, art. 513; Banking Laws, 1925, art. 513, p. 44.)

UTAH

Purchase of corporate stocks permitted.—"Any bank or loan, trust, and guaranty company or association, organized under the laws of the State of Utah, may purchase, own, hold, and sell or otherwise dispose of any of the shares of the capital stock of any other bank, loan, trust, and guaranty association or other corporation: *Provided*, Such purchase shall be authorized by the executive committee and approved by the board of directors; and in case the purchase is of stock in any other banking corporation the approval of said purchase must also be had from the State bank commissioner: *And provided, further*, That nothing in this section shall be so construed as to permit the establishment, maintenance, or control of any branch bank or loan, trust, or guaranty company in the State. All acts or parts of acts in conflict with this section are hereby repealed to the extent of such conflict." (Compiled Laws of 1917, sec. 986, p. 299; Banking Laws, 1927, sec. 986, p. 8.)

VERMONT

Purchase of bank or trust company stocks permitted.—Banking institutions are empowered to invest their assets "in the stock of any national bank in the New England States or the State of New York, or in the stock of any banking association or trust company incorporated under the authority of and located in such States, or in the stock of any bank incorporated under the authority of and located in the Dominion of Canada; but a bank shall not hold bank stock both by the way of investment and as security for loans in excess of 10 per cent of its assets, nor, in any one bank, more than 5 per cent of its assets, or more than \$200,000, or more than 10 per cent of the capital stock of any one bank." (General Laws, sec. 5363, par. (a), Subdivision VI, as amended by acts of 1929, Act No. 90, sec. 5.)

VIRGINIA

Purchase of corporate stocks permitted.—All banking institutions are empowered to purchase and sell "all stocks and bonds." (Acts of 1928, ch. 507, sec. 12; Banking Laws, 1929, sec. 4149 (13), p. 30.)

WASHINGTON

Purchase of corporate stocks prohibited.—" * * * Nor shall any such corporation (bank or trust company) subscribe for or purchase the stock of any other banking house or trust company, or of any domestic or foreign corporation of any character, * * * : *Provided*, That such bank and/or trust company may purchase, acquire and hold shares of stock in any other corporation which shares have been previously pledged as security to any loan or discount made in good faith and such purchase shall be necessary to prevent loss upon a debt previously contracted in good faith and stock so purchased or acquired shall be sold at public or private sale or otherwise disposed of within two years from the time of its purchase or acquisition. (Laws 1929, sec. 5, p. 100; Banking Laws, 1929, sec. 46, p. 26.)

It is also provided that corporations doing a trust business may not invest trust funds in corporate stocks. (Laws of 1929, ch. 206; Banking Laws, 1929, sec. 77, p. 37.)

WEST VIRGINIA

Purchase of stocks of business corporations permitted but limited to 20 per cent of purchasing bank's capital and surplus.—Banking institutions authorized to transact a trust business are empowered "to buy, hold, sell and deal in * * * the stocks or bonds of any business corporation." (Acts of 1929, ch. 23, sec. 4.)

Banking institutions shall not invest "in the stock of any corporation" an amount exceeding "20 per cent of the capital stock and surplus fund of any banking institution * * *". The corporation mentioned in this section shall not be construed to mean municipal corporations, districts or counties, or corporations owning the building in which the banking institution is located." (Acts of 1929, ch. 23, sec. 21.)

Purchase of bank stocks.—"It shall be unlawful for any firm, association or corporation to purchase and hold stock in any banking institution organized or

authorized to transact business hereunder for the purpose of selling, negotiating or trading participation in the ownership thereof either for the purpose of perfecting control of one or more such banking institutions or for the purpose of inducing other persons, firms or corporations or the general public to become participating owners therein. Nothing herein shall prevent the ownership of stock in any such banking institution by any corporation for investment purposes." (Acts of 1929, ch. 23, sec. 9.)

WISCONSIN

No statutory provisions.—The statutes of Wisconsin contain no provisions with reference to the purchase of corporate stock by banks and trust companies except mutual savings banks. The provision with reference to mutual savings banks provides that " * * * no mutual savings bank shall invest any part of its deposits in the stock of any corporation * * *." (Wisconsin Stat. 1929, sec. 222.13; Banking Laws, 1925, sec. 222.13, p. 52.)

WYOMING

Purchase of corporate stocks by banks prohibited.—"Hereafter no State bank shall invest any of its assets in the capital stock of any other corporation * * *, and except such as it may acquire or purchase to save a loss on a preexisting debt, and stock so acquired or purchased shall be sold within 12 months from the date acquired or purchased: *Provided*, That a further time may be granted by the State examiner." (Comp. Stat of Wyoming, 1920, sec 5138 Banking Laws, 1927, sec. 32. p. 18.)

Governor YOUNG. We were asked for four other things. I have prepared that information in a letter to you, Mr Chairman.

During the course of the hearings on branch, chain, and group banking held before your committee on March 19, requests were made for the following data which are submitted herewith.

1. A list of the principal bank chains and groups in States which permit State-wide branch banking, and in States which permit restricted branch banking.
2. The capital, surplus, and total resources of banks in States which permit State-wide branch banking, in States which permit restricted branch banking, and in States in which branch banking is prohibited.
3. Available information on trust assets of national banks is shown on the inclosed pages (16-21) of the 1929 Annual Report of the Comptroller of the Currency.
4. Available data relating to the ratio of net earnings of banks, classified according to size, to capital funds, i. e., capital and surplus and undivided profits. A number of the Federal reserve banks have from time to time made studies of the earnings and expenses of member banks in their respective districts and have included in these studies certain ratios, among which are the ratios of net earnings and of net profits to capital funds. In cooperation with the State banking departments, the Federal Reserve Bank of Chicago has made similar studies covering all banks in the States of Iowa, Illinois, Indiana, and Wisconsin. These ratios of earnings to capital funds, in so far as available by size of bank, have been tabulated in the inclosed statement. As a sample of the studies made by certain of the Federal reserve banks, I am inclosing herewith a copy of the study made by the Federal Reserve Bank of Chicago for 1928.

I should like to insert that in the record. That was called for.

The CHAIRMAN. That will be inserted at this point.

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

Principal bank chains and groups on December 31, 1929, in States which permit state-wide or restricted branch banking

Name and address of management or controlling interest	Banks in chain or group	Loans and investments	Branches of banks in chain or group
STATE-WIDE BRANCH BANKING PERMITTED			
California: ¹	<i>Number</i>		<i>Number</i>
Trans-American Corporation, ² New York.....	17	\$1, 139, 879, 000	448
Goldman Sachs Trading Corporation, ² New York.....	1	225, 072, 000	94
Anglo-National Corporation, ² San Francisco.....	16	145, 066, 000	1
BRANCHES PERMITTED BUT RESTRICTED AS TO LOCATION			
Georgia, First National Bank, Atlanta.....	7	104, 954, 000	10
Kentucky, ³ First National Corporation, Louisville.....	9	43, 823, 000	6
Louisiana, Calcasieu National Bank, Lake Charles.....	6	14, 644, 000	8
Maine, Financial Institutions (Inc.), Augusta.....	9	59, 575, 000	17
Massachusetts, First National Old Colony Corporation, Boston.....	20	568, 312, 000	31
Michigan: ⁴			
Guardian Detroit-Union Group (Inc.), Detroit.....	35	403, 996, 000	74
First National-Peoples Wayne Group, Detroit.....	21	705, 032, 000	213
Mississippi, S. J. High & Associates, Tupelo.....	10	4, 547, 000	2
New Jersey, Peoples Trust & Guaranty Co., Hackensack.....	9	25, 427, 000	-----
New York:			
Marine Midland Corporation, Buffalo.....	19	425, 436, 000	46
First Securities Corporation, Syracuse.....	14	115, 559, 000	13
Ohio, Banc Ohio Corporation, Columbus.....	4	61, 302, 000	13
Pennsylvania:			
Peoples-Pittsburgh Trust Co., Pittsburgh.....	7	167, 180, 000	1
Union Trust Co., Pittsburgh.....	6	458, 901, 000	-----
Tennessee:			
Rogers Caldwell, ² Nashville.....	11	97, 023, 000	20
American National Bank, Nashville.....	15	35, 470, 000	5

¹ The other States which permit state-wide branch banking are Arizona, Delaware, Maryland, North Carolina, Rhode Island, South Carolina, Vermont, and Virginia, but no chains or groups whatever were reported in 3 of these States and only small chains or groups in the 5 other States.

² Exclusive of banks located in other States that belong to this chain or group.

³ No provision in State law, but branches or additional offices are operated under court decisions.

⁴ No provision in State law, but State banking department has made no objection to establishment of local branches.

Capital and surplus and total resources of all banks in each State at the end of June, 1929, grouped according to provisions of State laws on branch banking

[Figures taken from 1929 Annual Report of the Comptroller of the Currency]

State	Capital	Surplus	Capital and surplus combined	Total resources
United States.....	\$3, 764, 087, 000	\$4, 597, 478, 000	\$8, 361, 565, 000	\$71, 805, 802, 000

STATE-WIDE BRANCH BANKING PERMITTED

Total.....	\$454, 557, 000	\$397, 972, 000	\$852, 529, 000	\$8, 051, 250, 000
Arizona.....	6, 026, 000	3, 784, 000	9, 810, 000	107, 315, 000
California.....	234, 134, 000	159, 363, 000	393, 497, 000	4, 169, 954, 000
Delaware.....	10, 800, 000	14, 730, 000	25, 530, 000	189, 755, 000
District of Columbia.....	24, 880, 000	20, 173, 000	45, 053, 000	331, 797, 000
Maryland.....	40, 663, 000	73, 911, 000	114, 574, 000	993, 191, 000
North Carolina.....	37, 335, 000	26, 654, 000	63, 989, 000	495, 243, 000
Rhode Island.....	14, 390, 000	34, 847, 000	49, 237, 000	584, 406, 000
South Carolina.....	18, 927, 000	10, 180, 000	29, 107, 000	225, 578, 000
Vermont.....	8, 086, 000	15, 263, 000	23, 349, 000	286, 399, 000
Virginia.....	59, 316, 000	39, 067, 000	98, 383, 000	667, 612, 000

Capital and surplus and total resources of all banks in each State at the end of June, 1929, grouped according to provisions of State laws on branch banking

BRANCHES PERMITTED BUT RESTRICTED AS TO LOCATION

State	Capital	Surplus	Capital and surplus combined	Total resources
Total	\$2,053,186,000	\$3,410,381,000	\$5,463,567,000	\$44,212,976,000
Georgia	40,479,000	26,279,000	66,758,000	454,386,000
Kentucky ¹	49,775,000	35,451,000	85,226,000	685,024,000
Louisiana	34,218,000	21,330,000	55,548,000	558,655,000
Maine	13,876,000	20,286,000	34,162,000	473,228,000
Massachusetts	143,678,000	222,709,000	366,387,000	4,791,518,000
Michigan ²	129,774,000	116,240,000	246,014,000	2,505,015,000
Mississippi	16,473,000	10,505,000	26,978,000	277,294,000
New Jersey	141,374,000	174,042,000	315,416,000	2,865,632,000
New York	870,020,000	1,875,506,000	2,745,526,000	20,804,553,000
Ohio	191,153,000	151,399,000	342,552,000	3,314,080,000
Pennsylvania	378,267,000	723,625,000	1,101,892,000	6,905,979,000
Tennessee	44,099,000	33,009,000	77,108,000	577,612,000

BRANCH BANKING PROHIBITED BY LAW ³

Total	\$1,189,233,000	\$744,745,000	\$1,933,978,000	\$18,264,754,000
Alabama	30,131,000	21,176,000	51,307,000	377,962,000
Arkansas	21,719,000	9,522,000	31,241,000	269,338,000
Florida	31,132,000	18,766,000	49,898,000	418,127,000
Indiana	78,417,000	44,744,000	123,161,000	1,234,844,000
Minnesota	61,458,000	34,549,000	96,037,000	1,127,571,000
Nebraska	32,316,000	13,101,000	45,417,000	510,555,000
Oregon	21,061,000	9,650,000	30,711,000	327,948,000
Washington	36,532,000	15,509,000	52,041,000	570,442,000
Wisconsin	69,676,000	37,315,000	105,991,000	1,147,485,000
Colorado	18,123,000	11,897,000	30,020,000	348,309,000
Connecticut	48,033,000	94,877,000	142,910,000	1,495,478,000
Idaho	5,912,000	2,259,000	8,171,000	100,421,000
Illinois	333,507,000	223,286,000	556,793,000	4,922,404,000
Iowa	67,258,000	30,096,000	97,354,000	1,014,508,000
Kansas	40,950,000	20,489,000	61,439,000	538,683,000
Missouri	108,247,000	61,782,000	170,029,000	1,487,106,000
Montana	11,365,000	5,201,000	16,566,000	190,486,000
Nevada	3,437,000	1,166,000	4,603,000	53,730,000
New Mexico	3,240,000	1,453,000	4,693,000	51,257,000
Texas	121,216,000	55,654,000	176,870,000	1,445,406,000
Utah	11,921,000	6,254,000	18,175,000	194,441,000
West Virginia	33,552,000	25,999,000	59,551,000	440,223,000

NO PROVISION IN STATE LAW REGARDING BRANCH BANKING (NO BRANCHES IN OPERATION)

Total	\$67,111,000	\$44,380,000	\$111,491,000	\$1,276,822,000
New Hampshire	6,630,000	21,469,000	28,099,000	334,643,000
North Dakota	11,137,000	4,693,000	15,830,000	147,251,000
Oklahoma	33,412,000	10,657,000	44,069,000	543,021,000
South Dakota	11,647,000	4,626,000	16,273,000	177,214,000
Wyoming	4,285,000	2,935,000	7,220,000	74,693,000

¹ No provision in State law, but branches or additional offices are operated under court decisions.

² No provision in State law, but State banking department has made no objection to establishment of local branches.

³ A number of branches are in operation, which were established prior to prohibitory legislation.

NATIONAL BANKS IN THE TRUST FIELD

The development of trust operations by national banks was evidenced by continued and substantial progress throughout the Nation during the past year. The statistics for this function compiled as of June 29, 1929, revealed that 2,442 national banks had received authority to exercise trust powers, with a combined capital of \$1,218,049,515, representing 32.4 per cent of the number and 74.8 per cent of the capital of all banks in the national banking system.

Trust departments had been established by 1,734 of these banks and 75,988 trusts were being administered with individual trust assets aggregating \$4,237,648,663. Seven hundred and thirty-six of these banks were also acting as trustees for bond and note issues aggregating \$7,370,154,456.

Compared with October 3, 1928, these figures represent a net increase in the number of national banks authorized to administer trusts under section 11 (k) of the Federal reserve act of 69, or 2.91 per cent; an increase in the number operating trust departments of 149, or 9.40 per cent; an increase in the number of trusts being administered of 12,212, or 19.15 per cent, and an increase in individual trust assets of \$940,338,544, or 28.52 per cent.

The growth in the fiduciary activities of the banks in the national banking system and the increasing popularity with the public of this important department of national bank operations are even more impressive when comparisons are made with the activities of national banks in this field just three years ago. In June, 1926, national banks numbering 2,026 had authority to exercise trust powers, with 1,104 actively engaged in administering trusts. These banks were then acting in a fiduciary capacity for 26,053 trusts, with individual trust assets of \$922,328,677, and were acting as trustees for bond and note issues aggregating \$2,463,553,316. The figures compiled as of June 29, 1929, represent for the 3-year period an increase in the number of national banks authorized to administer trusts of 416, or 20.53 per cent; an increase in the number of banks operating trust departments of 630, or 57.07 per cent; an increase in the number of trusts being administered of 49,936, or 191.67 per cent; an increase in individual trust assets of \$3,315,319,986, or 359.45 per cent; and an increase in the volume of bond and note issues outstanding for which these banks were acting as trustees of \$4,906,601,140, or 199.17 per cent.

As the activities of national banks have grown, so have the earnings that these banks have reported from this source. For the fiscal year ended June 30, 1929, trust department gross earnings aggregating \$20,583,000 were reported, as compared with \$16,165,000 in 1928, \$10,811,000 in 1927, and \$8,255,000 in 1926.

Another phase of fiduciary activity which is gaining in popularity is the creation of insurance trusts. While the administration of this type of trust is a comparatively recent development in national bank trust departments, yet on June 29, 1929, 118 national banks were administering 271 insurance trusts representing the proceeds of insurance policies aggregating \$11,384,632. Some indication of the place this type of trust will make for itself in the future operations of national banks is evidenced by the fact that 558 trust departments now hold 9,505 trust agreements which name those banks trustees in the future of the proceeds of insurance policies with a present face value of \$375,524,409, an amount aggregating more than one-third of the total individual trust assets under administration in 1926 by the 1,104 national bank trust departments then in operation.

National banks with authority to exercise trust powers have shown continued interests in the privilege afforded them to include the words "trust company" in their titles. While only 101 were operating with trust in their names in 1927, the number has increased to 302 since that time, and this method of informing the public of their authority to engage in trust functions is becoming general in many sections of the Nation.

A recent analysis developed that of the 7,536 national banks in operation, 2,442, or 32.4 per cent, had authority to exercise trust powers; 2,839, or 37.7 per cent, had capital sufficient to entitle them to apply for permission to exercise trust powers under section 11 (k) of the Federal reserve act, and 2,255, or 29.9 per cent, were ineligible to receive permission to engage in trust operations because their capital was less than that required by the laws of the States in which they were located for competing State institutions to receive like powers.

The accompanying recapitulation segregates national banks into six classes according to capital and gives detailed information relating to their fiduciary activities, following which is a table showing consolidated figures by Federal reserve districts.

Fiduciary activities of national banks in 1929 segregated according to capital

	Total	Banks with capital of \$25,000	Per cent	Banks with capital over \$25,000 to \$50,000	Per cent	Banks with capital over \$50,000 to \$100,000	Per cent	Banks with capital over \$100,000 to \$200,000	Per cent	Banks with capital over \$200,000 to \$500,000	Per cent	Banks with capital over \$500,000	Per cent
Number of national banks administering trusts.....	1,734	25	0.0144	109	0.0628	418	0.2410	526	0.3050	405	0.2335	248	0.1433
Combined capital of national banks administering trusts.....	\$1,028,678,615	\$625,000	0.0006	\$5,315,000	0.0005	\$40,690,000	0.0039	\$88,446,830	0.0089	\$144,480,485	0.1404	\$749,130,300	0.7285
ASSETS													
Investments.....	3,598,744,230	212,286	0.0056	5,298,598	0.014	31,548,125	0.0080	104,652,034	0.028	337,957,017	0.0663	3,027,166,240	8630
Deposits in savings banks.....	8,522,124	30,162	0.0035	28,025	0.0032	829,629	0.0073	1,171,870	0.1373	1,676,837	0.1967	4,785,601	5620
Deposits in other banks.....	18,035,531	3,922	0.0002	270,148	0.0149	103,480	0.0057	1,008,506	0.0559	2,329,888	0.1281	14,316,587	7942
Deposits in own banks.....	210,541,642	97,685	0.0004	3,544,339	0.0168	4,452,272	0.0211	7,650,167	0.0363	13,917,527	0.0661	180,879,652	8593
Other assets.....	493,805,136	34,694	0.00007	280,212,421	0.5674	3,206,948	0.0064	8,501,910	0.0175	30,214,652	0.0611	171,484,601	34753
Total.....	4,237,648,603	375,659	0.0008	289,263,461	0.0682	40,140,454	0.0094	123,134,487	0.0290	386,085,921	0.0911	3,398,635,861	80222
LIABILITIES													
Private trust accounts.....	2,404,561,306	16,314	0.00006	233,945,662	0.0972	14,507,963	0.0060	51,769,882	0.1115	191,635,752	0.0796	1,912,686,733	80669
Private trust accounts, income.....	18,947,833	630	0.00003	744,673	0.0039	167,018	0.0008	1,014,189	0.0355	3,337,580	0.1771	13,587,533	6877
Court trusts (executor, etc.).....	856,091,162	313	0.00003	58,006,238	0.007	20,363,676	0.0027	57,527,827	0.0682	132,057,859	0.1582	684,578,287	3877
Other liabilities.....	941,884,219	27,468	0.0002	1,117,485	0.011	4,121,500	0.0043	11,243,198	0.0119	52,350,514	0.0535	873,024,024	92718
Total.....	4,237,648,603	375,659	0.0008	289,263,461	0.0682	40,140,454	0.0094	123,134,487	0.0290	386,085,921	0.0911	3,398,635,861	80222
Trustees for bond issues.....	7,370,154,456	66,003	0.00009	474,028,008	0.0643	33,305,896	0.0045	87,561,743	0.0078	219,093,176	0.0297	6,586,206,631	896691
Individual trusts being administered.....	66,776	68	0.0010	1,337	0.0020	3,983	0.006	10,977	0.1642	14,756	0.2209	35,665	5343
Corporate trusts being administered.....	9,212	2	0.0002	1,361	0.0391	3,383	0.0415	866	0.0040	1,479	0.1605	6,121	6647
Number of national banks administering insurance trusts.....	118	1	0.0084	1	0.0084	7	0.0083	23	0.1949	32	0.2711	55	4663
Number of insurance trusts being administered (included in private trust totals).....	271	5	0.0176	5	0.0369	10	0.0369	50	0.1845	75	0.2767	131	4843
Number of insurance trusts being administered (included in private trust totals).....	\$11,384,632			\$4,110,874	0.0975	\$104,599	0.0017	\$939,949	0.0255	\$2,095,917	0.1841	\$7,043,893	6342
Number of banks holding insurance trust agreements not yet operative.....	558			7	0.0012	47	0.0842	121	0.2168	192	0.3440	191	3538
Number of insurance trusts for which banks have been named trustees (not included in private trust totals).....	9,505			108	0.0113	512	0.0538	861	0.0905	1,778	0.1870	6,246	6574

Fiduciary activities of national banks in 1929 segregated according to capital—Continued

	Total	Banks with capital of \$25,000	Per cent	Banks with capital over \$25,000 to \$50,000	Per cent	Banks with capital over \$50,000 to \$100,000	Per cent	Banks with capital over \$100,000 to \$200,000	Per cent	Banks with capital over \$200,000 to \$500,000	Per cent	Banks with capital over \$500,000	Per cent
LIABILITIES—continued													
Face value of insurance policies held under above agreements (not included in private trust totals).....	\$375,524,409		0.0197	\$3,023,270	0.0080	\$19,324,484	0.0514	\$66,765,693	0.1777	\$279,000,263	0.7432		
Number of national banks authorized to exercise fiduciary powers but not administering trusts.....	708	47	.0663	152	.2146	253	.3573	141	.1991	70	.0988	45	.0639
Combined capital of national banks authorized to exercise fiduciary powers but not administering trusts.....	\$189,361,900	\$1,176,000	.0062	\$7,325,000	.0388	\$24,152,000	.1275	\$24,465,400	.1291	\$25,542,500	.1348	\$106,702,000	.5638
Total number of national banks authorized to exercise fiduciary powers.....	2,442	72	.0294	261	.1068	671	.2747	670	.2743	475	.1945	293	.1203
Combined capital of national banks authorized to exercise fiduciary powers sufficient to apply for permission to exercise fiduciary powers at beginning of 1929.....	\$1,218,049,515	\$1,800,000	.0014	\$12,640,000	.0184	\$64,842,000	.0532	\$112,912,230	.0926	\$170,022,985	.1395	\$855,832,300	.6949
Number of national banks having amended fiduciary powers which have amended their titles to include the words "trust company" Oct. 15, 1929.....	2,839	586	.2064	972	.3423	778	.2740	320	.1127	128	.0450	55	.0196
	302	2	.0066	5	.0165	58	.1920	97	.3211	83	.2748	57	.1880

Fiduciary activities of national banks by Federal reserve districts as of June 29, 1929

Federal reserve districts	Number authorized to exercise fiduciary powers	Number of fiduciary powers being administered	Assets of individual trusts	Number of corporate trusts being administered	Bond issues outstanding which acts as trustee	Number of banks administering trusts	Number of insurance being administered	Volume of insurance under administration	Number of banks holding insurance agreements not yet operative	Number of insurance trusts agreements not yet operative	Face value of insurance policies held under agreements not yet operative	Trust deposits for gross earnings for fiscal year ending June 30, 1929
Boston.....	231	166	\$287,264,324	456	\$140,646,059	10	22	\$2,035,000	52	525	\$63,529,087	\$1,877,000
New York.....	362	274	1,226,070,151	2,227	4,737,986,867	18	31	1,032,344	52	1,265	8,975,792	8,975,792
Philadelphia.....	290	244	176,954,884	379	102,847,115	16	69	2,509,970	70	678	34,685,792	8,846,000
Cleveland.....	159	130	284,297,293	814	156,461,300	13	41	737,710	57	1,125	52,053,262	1,074,000
Richmond.....	193	146	198,306,728	278	94,355,216	14	14	311,746	49	430	18,142,990	611,000
Chicago.....	346	270	134,358,716	547	143,845,760	9	13	778,496	31	636	22,556,159	581,000
St. Louis.....	356	270	69,740,799	1,325	80,452,930	10	19	1,830,153	80	1,277	37,401,598	2,211,000
St. Paul.....	151	96	51,744,798	325	49,388,793	2	1	41,261	11	82	13,168,295	115,000
Minneapolis.....	109	48	36,678,949	194	17,068,971	2	2	41,261	11	82	13,168,295	115,000
Kansas City.....	196	107	254,479,123	535	80,943,398	3	24	562,378	35	1,020	14,594,239	753,000
Dallas.....	101	60	85,225,575	249	67,219,333	3	3	19,108	26	219	7,485,379	348,000
San Francisco.....	118	94	895,091,165	1,668	679,275,578	13	32	915,516	45	1,609	47,314,053	3,423,000
Total.....	2,442	1,794	4,237,648,662	9,212	7,370,154,456	118	271	11,384,632	538	9,505	375,524,409	20,583,000

Ratio to capital funds of earnings of member banks distributed according to size of bank

BOSTON DISTRICT

Loans and investments	Net earnings (before losses) 1925	Net profits (after losses)		
		1925	1926	1927
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Under \$500,000.....	8.2	6.7	6.7	6.0
\$500,000 to \$1,000,000.....	9.4	7.7	7.3	7.6
\$1,000,000 to \$2,000,000.....	10.7	8.6	9.9	8.5
\$2,000,000 to \$5,000,000.....	10.7	8.5	8.7	9.2
\$5,000,000 to \$10,000,000.....	10.3	8.1	8.1	8.4
Over \$10,000,000.....	11.2	6.8	7.2	7.3
Total.....	9.9	7.9	8.2	8.1

NEW YORK DISTRICT (ABOUT 40 SELECTED MEMBER BANKS IN EACH GROUP)

Loans and investments	Net earnings (before losses)				
	1923	1924	1925	1926	1927
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Under \$500,000.....	10.5	10.3	11.6	11.2	11.2
\$500,000 to \$1,000,000.....	12.2	11.9	11.2	13.6	13.9
\$1,000,000 to \$2,000,000.....	14.7	13.7	14.7	14.8	14.5
\$2,000,000 to \$5,000,000.....	15.7	13.8	15.6	14.3	13.5
\$5,000,000 to \$10,000,000.....	15.2	16.0	15.0	14.2	14.1
Over \$10,000,000:					
Outside New York City.....	13.4	14.4	14.4	14.4	13.2
In New York City.....	13.3	13.5	13.4	13.8	12.5
Total.....	13.6	13.4	13.7	13.8	13.3

PHILADELPHIA DISTRICT

Loans and investments	Net profits (after losses)—national banks only, 1927	Loans and investments	Net profits (after losses)—national banks only, 1927
	<i>Per cent</i>		<i>Per cent</i>
Under \$250,000.....	5.5	\$1,500,000 to \$2,000,000.....	8.9
\$250,000 to \$500,000.....	9.0	\$2,000,000 to \$3,000,000.....	9.7
\$500,000 to \$750,000.....	9.3	\$3,000,000 to \$5,000,000.....	8.5
\$750,000 to \$1,000,000.....	8.4	\$5,000,000 to \$10,000,000.....	9.3
\$1,000,000 to \$1,250,000.....	9.8	\$10,000,000 and over.....	8.6
\$1,250,000 to \$1,500,000.....	9.4		

RICHMOND DISTRICT

Loans and investments	Net profits (after losses), 1926	Loans and investments	Net profits (after losses), 1926
	<i>Per cent</i>		<i>Per cent</i>
Under \$250,000.....	3.0	\$2,000,000 to \$5,000,000.....	5.8
\$250,000 to \$500,000.....	4.3	\$5,000,000 to \$10,000,000.....	7.6
\$500,000 to \$1,000,000.....	5.8	\$10,000,000 and over.....	9.6
\$1,000,000 to \$2,000,000.....	7.3		

Ratio to capital funds of earnings of member banks distributed according to size of bank—Continued

CHICAGO DISTRICT (EXCLUDING BANKS IN CHICAGO)

Loans and investments	Net earnings (before losses)		Net profits (after losses)	
	1926	1928	1926	1928
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Less than \$250,000.....	5.9	6.4	0.7	0.3
\$250,000 to \$500,000.....	8.1	9.1	1.9	2.4
\$500,000 to \$750,000.....	9.6	10.0	3.9	4.8
\$750,000 to \$1,000,000.....	9.9	10.3	5.4	5.5
\$1,000,000 to \$1,500,000.....	10.2	10.4	6.8	5.1
\$1,500,000 to \$2,000,000.....	11.4	12.2	7.8	6.8
\$2,000,000 to \$3,000,000.....	13.0	12.6	8.1	8.9
\$3,000,000 to \$4,000,000.....	11.9	12.1	8.2	8.1
\$4,000,000 to \$5,000,000.....	11.8	12.7	9.1	9.7
\$5,000,000 to \$6,000,000.....	13.6	11.1	8.7	6.7
\$6,000,000 to \$10,000,000.....	12.4	12.5	9.7	8.2
\$10,000,000 to \$15,000,000.....	13.2	12.0	10.1	8.2
Over \$15,000,000.....	12.1	10.0	9.8	7.7
Total.....	11.6	10.9	8.2	7.2

ALL BANKS IN STATE OF ILLINOIS (EXCEPT COOK COUNTY)—1928

Loans and investments	Net profits (after losses)	Loans and investments	Net profits (after losses)
Under \$250,000.....	3.3	\$1,250,000 to \$2,000,000.....	5.5
\$250,000 to \$500,000.....	4.3	\$2,000,000 to \$5,000,000.....	7.4
\$500,000 to \$750,000.....	5.1	\$5,000,000 to \$10,000,000.....	6.3
\$750,000 to \$1,250,000.....	6.9	Over \$10,000,000.....	11.1

ALL BANKS IN STATE OF IOWA

Loans and investments	Net earnings				Net profits (after losses)			
	1924	1925	1926	1927	1924	1925	1926	1927
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	Per cent	Per cent	Per cent	Per cent	<i>Per cent</i>
Under \$75,000.....	0.9	0.3	0.2	0.9	-6.6	-9.6	-7.6	-9.5
\$75,000 to \$100,000.....	3.0	2.5	3.4	4.8	-5.6	-8.8	-1	-5.2
\$100,000 to \$150,000.....	2.5	3.4	4.0	4.5	-7.3	-6.3	-5.4	-5.9
\$150,000 to \$250,000.....	5.0	4.5	6.0	6.0	-2.2	-4.7	-2.2	-4.1
\$250,000 to \$500,000.....	6.8	6.8	7.7	7.4	-9	-1.0	-9	-1.6
\$500,000 to \$750,000.....	7.2	7.8	8.7	9.6	-1.2	-4	-2.3	1.6
\$750,000 to \$1,000,000.....	7.6	8.5	10.1	10.4	-1.5	.8	2.7	1.0
\$1,000,000 to \$1,750,000.....	8.9	8.6	9.1	9.1	4.1	.5	4.3	1.4
Over \$1,750,000.....	9.2	10.7	10.9	9.7	3.3	6.3	6.2	4.4
Total.....	7.5	8.0	8.7	8.5	.5	1.0	1.6	-.8

ALL BANKS IN STATE OF INDIANA, 1927

Loans and investments	Net earnings	Net profits (after losses)
	<i>Per cent</i>	<i>Per cent</i>
Under \$75,000.....	4.2	2.8
\$75,000 to \$100,000.....	4.8	-1.9
\$100,000 to \$150,000.....	6.6	3.4
\$150,000 to \$250,000.....	7.9	5.0
\$250,000 to \$300,000.....	9.0	6.0
\$300,000 to \$750,000.....	9.2	5.5
\$750,000 to \$1,000,000.....	9.3	6.1
\$1,000,000 to \$2,000,000.....	10.6	7.4
\$2,000,000 to \$5,000,000.....	11.0	8.3
Over \$5,000,000.....	10.1	7.7
Total.....	9.8	6.9

ALL BANKS IN STATE OF WISCONSIN, 1927

Under \$150,000.....	5.9	1.8
\$150,000 to \$250,000.....	9.5	4.3
\$250,000 to \$350,000.....	11.5	8.6
\$350,000 to \$500,000.....	11.8	7.9
\$500,000 to \$750,000.....	13.1	8.5
\$750,000 to \$1,000,000.....	12.1	7.3
\$1,000,000 to \$1,500,000.....	14.2	10.8
\$1,500,000 to \$2,000,000.....	15.5	11.5
\$2,000,000 to \$5,000,000.....	14.0	10.1
Over \$5,000,000.....	12.0	9.9
Total.....	12.7	9.4

ANALYSIS OF MEMBER BANK EARNINGS AND EXPENSES, CHICAGO FEDERAL RESERVE DISTRICT, DECEMBER 31, 1927, TO DECEMBER 31, 1928, INCLUSIVE, BY MEANS OF RATIOS OF AGGREGATES

The third special compilation of statistics on earnings and expenses of member banks in the Chicago, Federal reserve district—covering the calendar year 1928—has been completed and the results thereof are presented in this pamphlet to member banks and others interested, to provide the banks with data in a form readily usable by them as a basis for comparing their own operations with those of other banks, and in cases where they are desirous of so doing, to aid them in discovering wherein a higher degree of efficiency might be attained.

The first of these special compilations of earnings and expenses, in so far as the seventh Federal reserve district is concerned, was based upon reports of operations for the year 1924. It was followed by a second study, covering 1926, the latter distributed in printed form in the spring of 1928. The current study follows closely the lines laid down in the 1926 compilation, and includes, as did that for 1926, data for banks classified according to the size of centers in which they are located and further classified within such groups according to the size of the banks as measured by the volume of their principal earning assets, i. e., total loans and investments. The 1928 compilation includes two tables not presented in the previous studies, namely, one showing ratios of selected earnings and expense items to related bases for all member banks in the district, and a similar tabulation excluding the city of Chicago. It is believed these additional data supplement the other material in an interesting and helpful way. They will be found on page 11, together with a brief analysis of them.

METHOD OF COMPUTATION

A few points regarding the method used in computing the accompanying tables, and suggestions regarding the method which might be used in computing ratios for an individual bank comparable with the data shown herein, may prove helpful in interpreting them, and add to their usefulness in gaging the position of any particular bank.

The original information underlying the statistics was in all cases derived from the regular reports of condition and of earnings and expenses which member banks are required to submit periodically to the Federal Reserve Board and to the Comptroller of the Currency, and it may be remarked that the amount of detail provided by these reports determines the scope of the statistics which may be compiled from them. Although the reports are not so complete as might be desired in respect to such matters as income and expense directly related to the banks' premises, statistics summarizing the earnings and expenses of member banks as reported are of considerable value. At least a part of this value will be realized if the accompanying comparative tables and charts based on these statistics but emphasize the importance to banks of adequate records and analyses of their operations.

In compiling the ratios for groups of banks as presented in the accompanying tables, the first step was to classify the banks into groups, first according to the size of the centers in which they were located, and then according to the size of the banks. Following this, figures from the condition and the earnings and dividend reports of the individual banks were combined to obtain aggregate figures for each of the groups. These aggregates were then employed in calculating various group ratios. Ratios, or percentages, are used because groups of banks having earnings and expenses of widely different magnitudes are more easily compared by means of percentages than on the basis of the actual dollar amounts.

Four bases have been used in calculating the ratios (see Table I). They are (1) earning assets (gross loans and investments); (2) capital funds (capital, surplus, and undivided profits exclusive of reserves for taxes, interest, etc., accrued); (3) gross earnings; and (4) gross deposits. The ratios were obtained by dividing the aggregate figures for the various items of earnings and expenses (or such other items as were to be expressed in the form of ratios), of a given group by the base figure for the same group, and expressing the result as a percentage; for example, the ratio of interest and discount received to average earning assets for banks in a given group was obtained by dividing the aggregate amount of interest and discount received by banks in that group by the aggregate amount of the banks' earning assets. The figure for earning assets, capital funds, and gross deposits which were used as bases on which to calculate ratios are averages of amounts

reported on the five condition reports submitted during the year, including the reports for December 31, 1927, and December 31, 1928.¹

This was done because changes which occur in these items during the year render it desirable to ascertain approximately the average volume outstanding during the year before relating earnings and expense data to them by means of ratios. An individual bank may make rough comparisons of its earnings and expenses with those of groups of banks by means of ratios calculated on the basis of earning assets (and other items from its condition report) for a single date. It would be better, however, for the bank to follow as closely as possible the procedure by which the accompanying ratios were obtained, using averages of the amounts of its earning assets, capital funds, and deposits as reported for the five call dates during the year.²

In compiling these statistics member banks were classified into groups according to their size and location in order to obtain a certain amount of uniformity among the banks within the various groups. An important statistical result of this procedure was to eliminate to a considerable extent the disproportionate influence of large banks upon the ratios for the earning asset groups. A more important result was to make possible comparisons between groups of banks which were, in each case, subject to similar conditions of operations in respect to the volume of their transactions and the size of the centers which they served. The size of banks and of the centers in which they are located are not the only, or always the most important, criteria of the conditions under which they operate. For this reason, in comparing itself with other banks, any given institution should take into account differences in the character of its operations as compared with those of the other banks. These differences are, in part, indicated by dissimilarities in the proportion of time deposits which a bank holds and in the proportion of its investments to its total earning assets and to some extent, by the relative importance of earnings which it derives in forms other than interest and dividends on loans and investments. It is also important to bear in mind the effect on earnings and expenses of variations in practice as regards cost and income directly related to bank premises.

For your convenience in determining what figures to use in computing these ratios, we list below the numbers on the national and State banks' condition reports and on the reports of earnings, expenses, and dividends for all the items used in the study. Items taken from condition statements, Form 2130, No. 319 for National banks, and Federal Reserve Board Form 105 (revised November 1928), for State member banks:

	National banks	State banks
I. Earning assets.....	Items 1, 2, 3, 4.....	Items 1, 2, 3, 4.
II. Capital, surplus, and undivided profits.....	Items 15, 16, 17, 18.....	Items 14, 15, 16, 17.
III. Gross deposits.....	Items 21, 22, 23, 24.....	Items 19, 20, 21, 22.
IV. Time deposits.....	Item 23.....	Item 21.

Items taken from reports of earnings and dividends, comptroller's Form 2129 for national banks, and Federal Reserve Board Form 107 for State banks (revised November, 1928):

	National banks	State banks
1. Interest and discount received.....	1 (a, b, and c).....	1 (a, b, and c).
2. All other earnings.....	1 (d, e, f, g, h, and i).....	1 (d, e, f, g, h, and i).
3. Total gross earnings.....	1 (a-i inclusive).....	1 (a-i, inclusive).
4. Salaries and wages.....	2 a.....	2 a.
5. Interest and discount paid on borrowed money.....	2 b.....	2 b.
6. Interest paid on deposits.....	2 (c, d, and e).....	2 (c, d, and e).
7. Taxes.....	2 f.....	2 f.
8. All other expenses.....	2 g.....	2 g.
9. Total expenses.....	2 (a-g, inclusive).....	2 (a-g, inclusive).
10. Net earnings.....	3.....	3.
11. Net losses.....	3 (a, b, c, d, and e) minus.....	3 (a, b, c, and d) minus.
12. Net additions to profits.....	4 (a, b, and c).....	4 (a, b, and c).
13. Dividends.....	6.....	6.
	13.....	13.

* Change to deficit if minus item.

¹ In view of questions which have arisen in the past concerning the meaning of "average" as here used, it may be said that figures for the five dates were merely added together and then divided by five.

² In utilizing group ratios which are presented in the following tables, it should be borne in mind that they are ratios of aggregate amounts, and that consequently the influence which the figures of the larger banks of a given group exert on the group ratio is somewhat disproportionate to the number of such banks. This is not a consideration of great importance for most of the groups, since the range of size within any one group is relatively narrow.

With these figures at hand, all that is necessary in order to determine the percentage ratio is to divide each item for which a ratio is desired by the base figure. Given below are the various items for which ratios are shown in the accompanying tables, indicating the operation involved in their computation:

- Interest and discount received divided by average earning assets.
- All other earnings divided by average earning assets.
- Total gross earnings divided by average earning assets.
- Interest paid on deposits divided by average earning assets.
- Interest and discount paid on borrowed money divided by average earning assets.
- Salaries and wages divided by average earning assets.
- Taxes divided by average earning assets.
- All other expenses divided by average earning assets.
- Total expenses divided by average earning assets.
- Net earnings divided by average earning assets.
- \ Net losses divided by average earning assets.
- Net additions to profits divided by average earning assets.
- Stocks and bonds divided by average earning assets.
- Average earning assets divided by average capital, surplus, and undivided profits.
- Net earnings divided by average capital, surplus, and undivided profits.
- Net additions to profits divided by average capital, surplus, and undivided profits.
- Interest paid on deposits divided by gross earnings.
- Interest and discount on borrowed money divided by gross earnings.
- Salaries and wages divided by gross earnings.
- All other expenses divided by gross earnings.
- Total expenses divided by gross earnings.
- Net losses divided by gross earnings.
- Net additions to profits divided by gross earnings.
- Dividends divided by gross earnings.
- Interest paid on deposits divided by average gross deposits.
- Average time deposits divided by average gross deposits.
- Average capital, surplus, and undivided profits divided by average gross deposits.

By computing these per cent relationships between the various items, an individual bank may compare itself with the group of banks to which it belongs. It will reveal any ratios which are much out of line with the group averages for other institutions of its size. Many variations from group averages may be shown due to peculiarities in the bank's particular situation or to the type of business handled, as already noted. Other differences might bring to light conditions which officials would wish to correct.

We should welcome any questions which may arise, either with respect to working out these ratios or in regard to results obtained.

TABLE 1.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks grouped according to size, December 31, 1927, to December 31, 1928

Description of ratios	Member banks outside the city of Chicago with earning assets of—															All member banks in the district (including Chicago)
	Total															
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	
Group No.	Less than \$250,000	\$250,000 to \$500,000	\$500,000 to \$750,000	\$750,000 to \$1,000,000	\$1,000,000 to \$1,500,000	\$1,500,000 to \$2,000,000	\$2,000,000 to \$3,000,000	\$3,000,000 to \$4,000,000	\$4,000,000 to \$5,000,000	\$5,000,000 to \$6,000,000	\$6,000,000 to \$10,000,000	\$10,000,000 to \$15,000,000	Over \$15,000,000	Total	(15)	
Percentage of the following to average earning assets: 1	6.33	6.22	6.14	5.96	5.86	5.84	5.83	5.70	5.79	5.47	5.68	5.48	5.47	5.67	5.39	
Interest and discount received 2	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	1.01	
Interest on deposits	1.89	2.26	2.35	2.42	2.33	2.25	2.20	2.11	2.24	2.07	2.23	2.20	2.16	2.20	2.13	
Interest and discount on borrowed money	1.19	1.11	1.08	1.07	1.08	1.06	1.07	1.07	1.10	1.11	1.11	1.10	1.20	1.13	1.33	
Salaries and wages	2.26	1.98	1.98	1.98	1.98	1.98	1.40	1.47	1.36	1.38	1.28	1.29	1.15	1.29	1.29	
Taxes	1.40	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	1.38	
All other expenses	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	1.02	
Total expenses	5.05	5.26	5.02	4.94	4.85	4.79	4.86	4.86	4.87	4.69	4.73	4.80	4.68	4.79	4.79	
Net earnings	1.50	1.58	1.60	1.53	1.51	1.76	1.77	1.67	1.78	1.55	1.70	1.76	1.36	1.55	1.76	
Net losses	1.42	1.16	1.83	1.70	1.78	1.78	1.53	1.55	1.41	1.61	1.58	1.56	1.31	1.52	1.41	
Net additions to average investments (bonds and stocks)	1.08	1.42	1.78	1.82	1.73	1.98	1.25	1.12	1.37	1.94	1.13	1.20	1.05	1.03	1.35	
Percentage of the following to average capital funds: 3	21.02	27.33	31.70	36.26	36.83	37.46	34.55	34.50	33.23	37.30	30.79	33.91	23.78	23.71	27.22	
Average earning as-	430.05	571.48	621.64	671.79	691.66	694.50	711.00	723.14	709.31	714.65	730.60	683.40	736.94	704.11	693.14	
Net earnings	6.43	9.05	9.96	10.28	10.44	12.23	12.62	12.07	12.65	11.07	12.46	12.02	9.98	10.89	12.21	
Net additions to profits	1.32	2.42	4.82	5.54	5.07	6.81	8.87	8.09	9.71	6.74	8.24	8.19	7.70	7.22	9.39	

1 Includes total loans, and total bonds and stocks.
 2 Includes interest and dividends on bonds and stocks.
 3 Includes capital, surplus and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
 4 Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earnings assets to capital funds.

TABLE I.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks grouped according to size, December 31, 1927, to December 31, 1928—Continued

Description of ratios	Member banks outside the city of Chicago with earning assets of—														All member banks in district including Chicago) (15)
	Total														
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
Less than \$250,000	26.39	32.96	35.48	37.36	36.66	34.30	33.09	32.30	33.67	33.15	34.66	33.48	35.71	34.74	32.66
\$250,000 to \$500,000	2.71	1.67	1.16	1.04	1.26	.88	1.09	1.05	1.50	1.70	1.35	1.49	3.35	2.07	2.90
\$500,000 to \$750,000	26.87	24.52	22.34	21.46	21.66	21.11	21.06	22.53	20.49	22.16	19.93	19.60	19.06	20.42	19.73
\$750,000 to \$1,000,000	21.11	17.72	16.82	16.50	16.68	16.83	18.05	18.56	17.55	18.17	17.58	18.62	19.47	18.36	18.81
\$1,000,000 to \$1,500,000	79.06	76.87	75.80	76.36	76.29	73.12	73.29	74.44	73.21	75.18	73.22	73.19	77.53	73.28	73.81
\$1,500,000 to \$2,000,000	19.87	16.94	12.50	10.89	12.20	11.91	7.95	8.43	6.23	9.71	8.65	8.86	5.15	8.24	6.23
\$2,000,000 to \$3,000,000	1.05	6.19	11.70	12.75	11.54	14.97	18.76	17.18	20.56	18.11	17.53	18.26	17.32	16.17	20.67
\$3,000,000 to \$4,000,000	8.36	9.73	11.16	10.05	11.26	11.53	10.89	11.13	12.63	11.73	15.00	12.62	11.51	11.82	12.70
\$4,000,000 to \$5,000,000	1.92	2.27	2.84	2.40	2.30	2.20	2.14	2.63	2.07	2.00	2.15	2.01	2.06	2.12	2.63
\$5,000,000 to \$6,000,000	36.85	51.09	53.23	57.57	56.85	57.48	54.04	52.18	46.11	48.24	51.51	37.53	48.84	49.87	41.52
\$6,000,000 to \$7,500,000	23.64	17.59	16.05	14.79	14.28	14.11	13.67	13.28	13.28	13.52	13.22	13.40	12.99	13.67	19.75
\$7,500,000 to \$10,000,000	134	271	176	124	145	80	69	44	31	15	43	19	25	1,176	1,269
\$10,000,000 to \$15,000,000															

† Includes demand, time, and Government deposits plus amounts due to banks.

This table includes 1,176 member banks (1,239 for the entire district, including Chicago), which have been classified into 13 groups with 27 ratios computed for each group, 13 on average earning assets as a base; 3 on average capital, surplus, and undivided profits; 8 on total gross earnings; and the remaining 3 on average gross deposits.

The trends shown in 1928 are similar to those in the corresponding tabulation for 1926, especially those ratios based upon gross earnings, which represent a percentage distribution of the banks' earnings as between amounts absorbed by expenses, losses, and amounts remaining as profits, and which are therefore perhaps the most easily understood and generally speaking provide the most ready means of making useful comparisons between groups of banks and between individual banks and groups. For instance, the portion of Table I, which deals with banks outside the city of Chicago, gives evidence, as was the case in 1926, of a tendency toward proportionately smaller expenditures for salaries and wages by larger banks as compared with those of smaller size, a trend also evident in the tabulation presenting the data for banks classified according to size of center in which located. For the group composed of the smallest banks (earning assets less than \$250,000), the percentage of gross earnings paid out for salaries and wages in 1928 was 28.87, as against 28.45 per cent in 1926, while the percentages for the group comprising the largest institutions were 19 and 19.26 respectively.

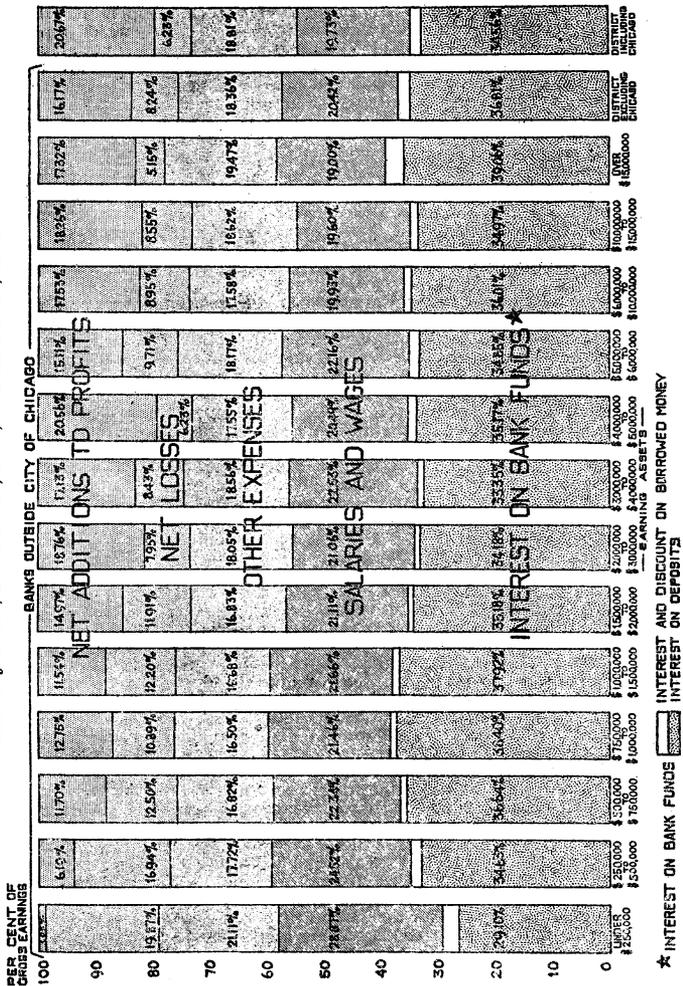
Interest on deposits in 1928 absorbed 34.74 per cent of gross earnings, a small reduction from 1926, when 35.06 per cent of gross earnings constituted the cost of deposits. The foregoing item, combined with interest on borrowed money—funds borrowed from other banks—represents the direct cost of the funds which a bank employs; as in 1926, interest on borrowed money in 1928 tended to be proportionately larger in the case of the smaller banks; this trend, however, is less clear than in 1926, the group of 25 banks with earning assets of over \$15,000,000 in 1928 expending 3.35 per cent of their total gross earnings for interest and discount on borrowed money, as against only 2 per cent in 1926. The group comprising the smallest banks, on the other hand, in 1928 employed a somewhat smaller percentage of their gross earnings for interest and discount on borrowed money, 2.71 per cent in 1928 as against 3.26 per cent in 1926.

The proportion of gross earnings of member banks absorbed by total expenses was slightly greater in 1928 than in 1926, the percentage last year being 75.59 compared with 74.94 in 1926. Net losses were greater, most of the groups showing a heavier volume than in 1926, and for all member banks outside the city of Chicago, the aggregate was 8.24 per cent of gross earnings whereas in 1926 the ratio was 7.43. As was the case in the preceding study, the 1928 compilation shows that the groups comprising the smaller banks, in general wrote off heavier losses than the larger institutions. As a result of the greater proportion of gross earnings absorbed by expenses, coupled with heavier losses as between the two years, net additions to profits showed a material reduction, totaling 16.17 per cent in 1928 and 17.64 per cent in 1926.

Attention is again drawn to the ratios in the accompanying tables which express earnings and expenses in terms of average earning assets, i. e., in terms of the volume of business handled by the banks as indicated approximately by the volume of their loans and investments. Both earnings and expenses in relation to earning assets show a fairly uniform downward trend for the smaller groups, while in the so-called intermediate groups (earning assets \$1,500,000 and more), they show no particular trend; for the group of banks with earning assets over \$15,000,000, however, a drop in both earnings and expense items is evident as compared with preceding groups. Salaries and wages show a progressive decline for banks up to the million-dollar earning asset group, and remain practically on the same level until reaching banks of the \$6,000,000 size, after which another drop is noticeable, especially for the group with earning assets of over \$15,000,000. Interest on deposits in 1928, for all member banks outside Chicago, was 2.20 per cent of average earning assets, the ratio being materially lower than in 1926 in the group of smallest banks. Losses as expressed in relation to average earning assets show a uniform downward trend with the increase in size of bank, and additions to profits moved upward in 1928, although after the group of banks of \$3,000,000 size is reached, both of these trends are irregular. A steady gain in the ratio of earning assets to invested capital can be noted in the groups of larger banks.

Differences between banks in respect to earnings and expenses are a reflection of differences in organization, efficiency, and character of business handled. These basic differences are evidenced to some extent, though not wholly, by

TABLE II.—Distribution of gross earnings of member banks in the Chicago Federal reserve district, banks grouped according to size, December 31, 1927, to December 31, 1928



ing situation, and this fact accounts, to a considerable extent, for the irregularity of movement in some of the ratios. A tabulation of banks grouped according to the population of centers in which they are located is presented in Table III.

TABLE III.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks grouped according to size of centers, December 31, 1927 to December 31, 1928

Description of ratios	Member banks in centers with a population of—					All member banks in the district
	Less than 1,000	1,000 to 5,000	5,000 to 15,000	15,000 to 100,000	100,000 and over	
Percentage of the following to average earning assets: ¹						
Interest and discount received ²	6.37	6.02	5.90	5.63	5.18	5.39
All other earnings.....	.46	.50	.60	.92	1.37	1.16
Gross earnings.....	6.83	6.52	6.50	6.55	6.55	6.55
Interest paid on deposits.....	2.49	2.43	2.33	2.20	2.05	2.13
Interest and discount on borrowed money.....	.12	.06	.08	.08	.10	.13
Salaries and wages.....	1.57	1.40	1.38	1.37	1.24	1.29
Taxes.....	.35	.35	.36	.38	.39	.38
All other expenses.....	.74	.68	.71	.82	.89	.85
Total expenses.....	5.26	4.93	4.86	4.86	4.73	4.79
Net earnings.....	1.57	1.59	1.64	1.69	1.82	1.76
Net losses.....	.98	.77	.72	.57	.28	1.41
Net additions to profits.....	.60	.82	.92	1.12	1.54	1.35
Average investments (bonds and stocks).....	25.77	35.14	36.85	32.71	24.03	27.22
Percentage of the following to average capital fund: ³						
Average earning assets.....	599.88	675.84	710.75	702.29	694.15	693.14
Net earnings.....	9.43	10.75	11.67	11.89	12.60	12.21
Net additions to profit ⁴	3.58	5.55	6.53	7.88	10.67	9.39
Percentage of the following to gross earnings:						
Interest paid on deposits.....	36.38	37.32	35.81	33.63	31.35	32.56
Interest and discount on borrowed money.....	1.72	.98	1.22	1.25	2.39	2.00
Salaries and wages.....	22.93	21.41	21.20	20.96	18.98	19.73
All other expenses.....	15.96	15.92	16.50	18.33	19.55	18.81
Total expenses.....	76.99	75.62	74.73	74.17	72.27	73.10
Net losses.....	14.28	11.75	11.13	8.72	4.26	6.23
Net additions to profits.....	8.73	12.59	14.14	17.11	23.47	20.67
Dividends declared.....	9.71	10.55	11.12	13.21	13.02	12.70
Percentage of the following to average gross deposits: ⁵						
Interest paid on deposits.....	2.51	2.41	2.29	2.09	1.94	2.03
Average time deposits.....	56.82	56.88	57.60	49.13	36.48	41.83
Average capital funds.....	16.86	14.64	13.84	13.53	13.62	13.75
Number of banks.....	295	453	196	190	105	1,239

¹ Includes total loans, and total bonds and stocks.

² Includes interest and dividends on bonds and stocks.

³ Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued.)

⁴ Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.

⁵ Includes demand, time, and Government deposits plus amounts due to banks.

In this table are given data similar to those carried in Table I, with banks classified according to the population of cities in which located, five population groups being used as was done in the 1926 study, namely, (1) Banks in cities of less than 1,000 population, (2) 1,000 to 5,000, (3) 5,000 to 15,000, (4) 15,000 to 100,000, and (5) 100,000 and over. In subsequent tables, banks in each of the population groups listed above are further classified according to volume of average earning assets and ratios computed. A few noteworthy facts brought out by these compilations are cited:

An increase in the size of city is accompanied by a decline in the ratio of interest and discount received to earning assets; on the other hand there is also evident an increase in the ratio of "other" earnings, so that as a result of the contrary trend of these items, total earnings showed irregular fluctuations and no definite trend. An increase in the size of the bank, or in its earning assets, however, was accompanied by a downward movement in both interest and discount received and "other" earnings, for groups of banks with less than \$1,500,000 earning assets, total earnings reflecting this trend definitely whether arranged with reference to size of city or not. Total expenses move fairly uniformly downward with an increase in either size of city or of bank. Net earnings, determined as they are by variations in gross earnings and total expenses, showed a fairly uniform upward trend accompanying increases in size of banks and of cities, net losses showing a

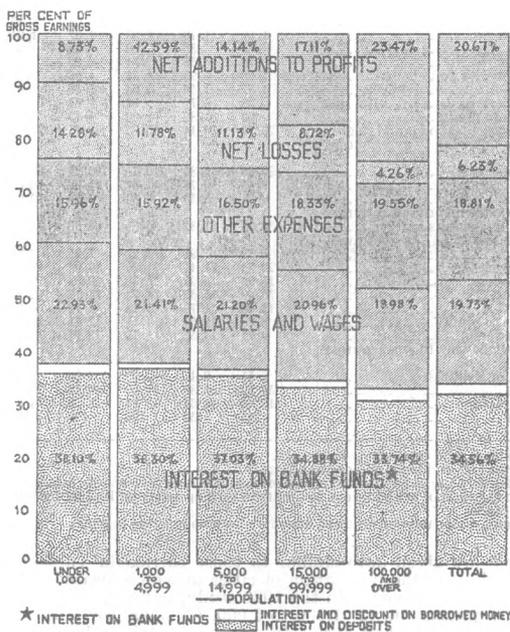
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reverse of this movement, thereby further emphasizing the upward trend for additions to profits. As there is a distinctly upward tendency in the ratio of earning assets to invested capital with an increase in size of bank, and as this trend is apparent irrespective of whether banks are arranged according to their own size or that of city in which located provided the population does not exceed 15,000, the ratio of additions to profits on the basis of invested capital shows an even stronger upward trend than when on the basis of earning assets.

TABLES IV A TO E, INCLUSIVE

These tabulations are designed to supplement Tables III and III-A, and form the basis of some of the discussion in the foregoing paragraphs. It will be noted

TABLE III-A.—Distribution of gross earnings of member banks in the Chicago Federal reserve district, banks grouped according to size of centers, December 31, 1927, to December 31, 1928



(Table III) that time deposits show a rising tendency for cities with less than 15,000 population, and a downward trend for cities in the larger population groups. For banks with earning assets of less than \$1,000,000, the trend is upward and for the larger earning asset groups (\$10,000,000 and over) there is a definite downward movement, these trends typifying situations wherein both factors, i. e., size of bank and size of city, are operative. Where the size of city as a factor is eliminated by following the trend as shown by the earning asset groups within a group of cities of uniform size, the tendency is upward for size of bank until reaching the \$2,000,000 earning asset volume, and irregular thereafter. Where the factor of bank size is eliminated by grouping banks of uniform volume of earning assets according to cities in which located, the trend is generally downward throughout all the groups.

TABLE IV-B.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 1,000 to 5,000 population, December 31, 1927, to December 31, 1928

Description of ratios	Member banks with earning assets of—							Total
	Less than \$250,000	\$250,000 to \$500,000	\$500,000 to \$750,000	\$750,000 to \$1,000,000	\$1,000,000 to \$1,500,000	\$1,500,000 to \$2,000,000	Over \$2,000,000	
Percentage of the following to average earning assets: ¹								
Interest and discount received ²	6.45	6.27	6.16	5.91	5.53	6.11	5.96	6.02
All other earnings.....	.74	.55	.50	.48	.44	.48	.72	.50
Gross earnings.....	7.20	6.82	6.66	6.40	6.27	6.58	6.68	6.52
Interest paid on deposits.....	2.07	2.05	2.37	2.52	2.50	2.57	2.70	2.43
Interest and discount on borrowed money.....	.10	.11	.07	.06	.03	.05	.05	.06
Salaries and wages.....	2.12	1.78	1.48	1.30	1.30	1.20	1.20	1.40
Taxes.....	.59	.40	.39	.32	.34	.33	.29	.35
All other expenses.....	1.02	.93	.72	.68	.57	.59	.62	.68
Total expenses.....	5.91	5.27	5.03	4.89	4.77	4.74	4.87	4.93
Net earnings.....	1.29	1.55	1.63	1.51	1.50	1.84	1.82	1.59
Net losses.....	1.18	1.29	.92	.71	.66	.49	.25	.77
Net additions to profits.....	.11	.25	.72	.80	.84	1.35	1.56	.82
Average investments (bonds and stocks).....	23.85	28.74	32.01	37.31	38.59	38.91	34.77	35.14
Percentage of the following to average capital funds: ³								
Average earning assets.....	420.64	554.04	614.74	702.95	742.24	775.39	836.10	675.84
Net earnings.....	5.43	8.57	10.05	10.61	11.13	14.28	15.18	10.75
Net additions to profits.....	.44	1.39	4.42	5.63	6.21	10.49	13.06	5.55
Percentage of the following to gross earnings:								
Interest paid on deposits.....	28.79	30.06	35.62	39.45	39.93	39.09	40.47	37.32
Interest and discount on borrowed money.....	1.41	1.57	1.06	.96	.77	.74	.70	.98
Salaries and wages.....	29.44	26.15	22.18	20.36	20.73	18.20	17.99	21.41
All other expenses.....	22.44	19.55	16.59	15.63	14.65	14.00	13.67	15.92
Total expenses.....	82.08	77.33	75.45	76.40	76.08	72.03	72.83	75.62
Net losses.....	16.46	18.98	13.76	11.08	10.56	7.42	3.79	11.78
Net additions to profits.....	1.46	3.69	10.79	12.52	13.36	20.55	23.38	12.59
Dividends declared.....	7.61	9.83	11.10	10.53	10.79	11.64	8.74	10.55
Percentage of the following to average gross deposits: ⁴								
Interest paid on deposits.....	1.98	2.05	2.35	2.52	2.47	2.51	2.67	2.41
Average time deposits.....	40.59	45.50	52.98	60.84	57.95	68.47	62.79	56.88
Average capital funds.....	22.71	18.02	16.10	14.23	13.29	12.57	11.81	14.64
Number of banks.....	25	120	124	75	81	18	10	453

¹ Includes total loans and total bonds and stocks.² Includes interest and dividends on bonds and stocks.³ Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued.)⁴ Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.⁵ Includes demand, time, and Government deposits plus amounts due to banks.

TABLE IV-C.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 5,000 to 15,000 population, December 31, 1927 to December 31, 1928

Description of ratios	Member banks with earnings asset of—							Total
	Less than \$500,000	\$500,000 to \$750,000	\$750,000 to \$1,000,000	\$1,000,000 to \$1,500,000	\$1,500,000 to \$2,000,000	\$2,000,000 to \$3,000,000	Over \$3,000,000	
Percentage of the following to average earning assets: ¹								
Interest and discount received ²	7.15	5.87	6.01	5.95	5.79	5.77	5.99	5.90
All other earnings.....	1.05	.51	.52	.54	.60	.69	.61	.60
Gross earnings.....	8.20	6.38	6.53	6.49	6.39	6.47	6.60	6.50
Interest paid on deposits.....	2.61	1.67	2.17	2.18	2.23	2.42	2.65	2.33
Interest and discount on borrowed money.....	.10	.17	.09	.11	.05	.09	.05	.08
Salaries and wages.....	1.95	1.69	1.56	1.44	1.35	1.26	1.29	1.38
Taxes.....	.43	.54	.41	.42	.36	.33	.29	.36
All other expenses.....	1.20	.88	.79	.80	.69	.63	.65	.71
Total expenses.....	6.29	4.96	5.03	4.95	4.68	4.73	4.94	4.86
Net earnings.....	1.91	1.42	1.50	1.54	1.71	1.74	1.66	1.64
Net losses.....	.60	.56	.71	1.12	1.02	.49	.52	.72
Net additions to profits.....	1.31	.87	.80	.42	.69	1.26	1.34	.92
Average investments (bonds and stocks).....	33.26	31.91	34.11	34.27	36.78	40.25	38.27	36.85
Percentage of the following to average capital funds: ³								
Average earning assets.....	507.40	560.73	616.45	652.92	690.55	783.81	843.22	710.75
Net earnings.....	9.68	7.98	9.27	10.04	11.80	13.66	13.98	11.67
Net additions to profits ⁴	6.66	4.86	4.92	2.74	4.73	9.84	11.31	6.53
Percentage of the following to gross earnings:								
Interest paid on deposits.....	31.89	26.25	33.23	33.52	34.93	37.41	40.21	35.81
Interest and discount on borrowed money.....	1.19	2.73	1.40	1.76	.76	1.38	0.81	1.22
Salaries and wages.....	23.73	26.46	23.97	22.23	21.19	19.44	19.61	21.20
All other expenses.....	19.90	22.25	18.36	18.80	16.38	14.82	14.23	16.50
Total expenses.....	76.71	77.69	76.96	76.31	73.27	73.05	74.86	74.73
Net losses.....	7.28	8.73	10.82	17.23	16.01	7.53	4.80	11.13
Net additions to profits.....	16.01	13.58	12.22	6.46	10.73	19.42	20.34	14.14
Dividends declared.....	13.89	11.52	9.78	12.62	11.87	11.18	9.55	11.12
Percentage of the following to average gross deposits: ⁴								
Interest paid on deposits.....	2.67	1.72	2.15	2.16	2.19	2.36	2.58	2.29
Average time deposits.....	44.20	37.91	50.37	55.98	56.45	62.16	63.19	57.60
Average capital funds.....	20.11	18.27	16.09	15.23	14.22	12.44	11.52	13.84
Number of banks.....	5	18	39	45	45	26	18	196

¹ Includes total loans, and total bonds and stocks.² Includes interest and dividends on bonds and stocks.³ Includes capital, surplus and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).⁴ Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.⁵ Includes demand, time, and Government deposits plus amounts due to banks.

TABLE IV-D.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 15,000 to 100,000 population, December 31, 1927, to December 31, 1928

Description of ratios	Member banks with earning assets of—											Total
	Less than \$1,000,000	\$1,000,000 to \$1,500,000	\$1,500,000 to \$2,000,000	\$2,000,000 to \$3,000,000	\$3,000,000 to \$4,000,000	\$4,000,000 to \$5,000,000	\$5,000,000 to \$6,000,000	\$6,000,000 to \$8,000,000	\$8,000,000 to \$10,000,000	\$10,000,000 to \$15,000,000	Over \$15,000,000	
Percentage of the following to average earning assets: 1	5.87	5.56	5.65	5.87	5.51	5.80	5.60	5.65	5.45	5.56	5.63	
Interest and discount received 2	.96	.79	1.30	.92	.95	.90	.87	.81	1.28	.75	.92	
All other earnings	6.84	6.35	6.95	6.79	6.46	6.70	6.47	6.46	6.73	6.80	6.55	
Gross earnings	1.60	1.69	1.81	1.91	1.85	2.20	2.11	2.21	2.35	2.91	2.20	
Interest paid on deposits	1.53	1.67	1.71	1.74	1.77	1.36	1.42	1.30	1.56	1.47	1.75	
Interest and discount on borrowed money	1.54	1.35	1.47	1.54	1.57	1.43	1.42	1.41	1.29	1.17	1.37	
Taxes and wages	1.12	.96	1.04	.90	.94	.80	.83	.76	.86	.62	.82	
All other expenses	5.07	4.82	5.12	4.92	4.78	4.88	4.70	4.70	4.88	5.22	4.86	
Total expenses	1.77	1.52	1.83	1.87	1.68	1.81	1.60	1.76	1.86	1.69	1.69	
Net earnings	4.86	1.50	1.49	1.64	1.63	1.37	1.39	1.08	1.55	1.21	1.12	
Net losses	42.00	34.56	38.78	30.47	32.89	33.47	35.12	31.94	38.24	25.23	32.71	
Average investments (bonds and stocks)	463.18	571.57	615.44	638.51	680.53	684.07	741.46	705.59	889.23	702.29		
Average earning assets	8.18	8.71	11.26	11.94	11.41	12.41	11.89	12.30	13.10	11.89		
Net additions to profits	3.96	3.84	8.21	7.84	7.15	9.21	7.47	7.66	4.83	7.88		
Percentage of the following to gross earnings:	26.36	25.56	26.00	28.14	28.71	32.80	32.65	34.22	34.86	46.21		
Interest paid on deposits	26.13	26.15	24.68	22.60	24.02	20.39	21.04	20.33	18.74	18.56		
Interest and discount on borrowed money	24.30	20.55	21.60	20.74	20.22	18.12	19.08	17.18	18.06	20.96		
All other expenses	14.38	7.90	7.24	7.93	7.63	6.94	7.16	6.84	8.24	13.75		
Total expenses	12.49	10.67	11.93	11.88	11.65	11.68	11.68	11.68	11.68	11.68		
Net additions to profits	12.49	16.10	15.21	18.08	16.26	20.09	15.68	17.73	22.41	8.72		
Dividends declared	6.77	11.77	10.67	11.55	12.13	13.19	12.34	14.08	16.20	11.71		
Percentage of the following to average gross deposits: 4	1.52	1.59	1.78	1.66	1.77	2.07	2.03	2.13	2.13	2.09		
Interest paid on deposits	41.57	38.50	44.11	42.11	47.08	45.07	50.78	46.78	41.86	49.13		
Average time and funds	20.49	16.52	16.02	15.22	14.03	13.79	12.94	13.62	12.85	13.53		
Number of banks	9	12	16	33	31	25	12	37	10	5		

1 Includes total loans, and total bonds and stocks.
 2 Includes interest and dividends on bonds and stocks.
 3 Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).
 4 Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
 † Includes demand, time, and Government deposits plus amounts due to banks.

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TABLE IV.—Earnings and expenses of member banks in the Chicago Federal reserve district, banks in centers of 100,000 population and over, December 31, 1927 to December 31, 1928

Description of ratios	Member banks with earning assets of—										Total
	Less than \$1,000,000	\$1,000,000 to \$2,000,000	\$2,000,000 to \$3,000,000	\$3,000,000 to \$4,000,000	\$4,000,000 to \$5,000,000	\$5,000,000 to \$6,000,000	\$6,000,000 to \$10,000,000	\$10,000,000 to \$15,000,000	Over \$15,000,000		
Percentage of the following to average earning assets: ¹											
Interest and dividend received ²	5.09	5.52	5.69	5.32	5.32	5.13	5.58	5.51	5.14	5.18	
All other earnings	1.88	1.44	1.21	1.21	1.21	1.20	1.32	1.22	1.39	1.37	
Gross earnings	6.97	6.96	6.90	6.16	6.16	6.33	6.90	6.74	6.53	6.55	
Interest paid on deposits	1.52	1.54	1.73	1.72	1.72	1.88	2.07	1.96	2.07	2.05	
Interest and discount on borrowed money	.07	.08	.13	.13	.13	.10	.19	.17	.16	.16	
Salaries and wages	2.36	1.93	1.99	1.94	1.94	1.97	1.80	1.86	1.80	1.79	
Other expenses	1.80	1.47	1.44	1.37	1.37	1.39	1.40	1.40	1.39	1.39	
Total expenses	6.00	5.32	5.50	4.82	4.82	4.85	5.25	4.94	4.69	4.73	
Net earnings	.98	1.10	1.47	1.35	1.35	1.47	1.65	1.80	1.84	1.82	
Net losses	.28	.26	.35	.49	.49	.47	.09	.80	.25	.28	
Net additions to profits (bonds and stocks)	.70	.84	1.11	.86	.86	1.00	1.56	1.00	1.59	1.54	
Average investments (bonds and stocks)	68.70	42.02	43.94	38.07	38.07	38.39	25.14	26.86	23.04	24.66	
Average earnings (bonds and stocks)	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	
Average earnings (including to average capital funds): ³	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	
Net earnings	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	3.01	
Net additions to profits ⁴	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	
Percentage of the following to gross earnings:											
Interest paid on deposits	21.82	22.97	24.83	27.96	27.96	29.75	29.96	29.11	31.72	31.95	
Interest and discount on borrowed money	1.76	1.76	1.76	1.76	1.76	1.76	1.76	1.76	1.76	1.76	
Salaries and wages	33.73	30.08	28.65	28.77	28.77	25.54	25.11	20.25	18.36	18.98	
All other expenses	29.33	28.43	24.27	21.05	21.05	19.77	20.30	21.36	19.30	19.55	
Total expenses	86.98	82.85	78.96	78.17	78.17	76.66	76.13	73.27	71.77	72.27	
Net losses	3.97	4.08	5.37	7.94	7.94	7.50	3.28	11.83	3.86	4.29	
Net additions to profits	10.05	13.07	15.96	18.63	18.63	18.89	22.49	14.81	23.47	23.77	
Dividends declared	7.24	3.88	9.19	7.63	7.63	8.36	9.08	10.25	13.27	13.02	
Interest and dividend received ² to average gross deposits:											
Interest paid on deposits	1.68	1.56	1.71	1.64	1.64	1.81	1.99	1.79	1.96	1.94	
Average investments (bonds and stocks)	46.75	54.24	57.72	44.96	44.96	53.72	52.21	33.50	35.29	36.48	
Average capital funds	35.88	18.94	11.49	15.95	15.95	13.37	12.54	13.48	13.65	13.62	
Number of banks	3	8	9	4	4	9	14	12	35	106	

¹ Includes total loans and total bonds and stocks.² Includes interest and dividends on bonds and stocks.³ Includes capital, surplus, and undivided profits (exclusive of reserves for taxes, interest, etc., accrued).⁴ Equivalent to the ratio of net additions to profits to earnings assets multiplied by the ratio of earning assets to capital funds.⁵ Includes demand, time, and Government deposits plus amounts due to banks

TABLE V.—Earnings and expenses of member banks in the Chicago Federal reserve district, selected ratios for banks grouped by size of center and by size of bank, December 31, 1927, to December 31, 1928

Size groups, banks with earning assets of—	Number of banks in each group										Percentage of total gross earnings to average earning assets					Percentage of total expenses to average earning assets					Percentage of net earnings to average earning assets															
	A		B		C		D		E		Total		A		B		C		D		E		Total		A		B		C		D		E		Total	
Less than \$250,000.....	109	25	7.13	7.20	7.13	7.20	7.13	7.20	7.13	7.20	7.13	7.20	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.91	5.65	5.65	5.65	5.65	5.65	5.65	5.65	5.65	5.65	5.65	5.65	1.50	
\$250,000 to \$500,000.....	144	120	6.79	6.82	6.79	6.82	6.79	6.82	6.79	6.82	6.79	6.82	5.21	5.27	5.21	5.27	5.21	5.27	5.21	5.27	5.21	5.27	5.21	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26	5.26	1.38	
\$500,000 to \$1,000,000.....	51	27	6.81	6.90	6.81	6.90	6.81	6.90	6.81	6.90	6.81	6.90	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	4.33	1.59	
\$1,000,000 to \$1,500,000.....	4	3	6.86	6.86	6.86	6.86	6.86	6.86	6.86	6.86	6.86	6.86	6.39	6.39	6.39	6.39	6.39	6.39	6.39	6.39	6.39	6.39	6.39	4.46	4.46	4.46	4.46	4.46	4.46	4.46	4.46	4.46	4.46	4.46	1.52	
\$1,500,000 to \$2,000,000.....	1	18	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	6.58	6.58	6.58	6.58	6.58	6.58	6.58	6.58	6.58	6.58	6.58	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	1.49	
\$2,000,000 to \$3,000,000.....	1	9	26	33	9	26	33	9	26	33	9	26	33	4.87	4.87	4.87	4.87	4.87	4.87	4.87	4.87	4.87	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	1.75		
\$3,000,000 to \$4,000,000.....	1	1	4	4	4	4	4	4	4	4	4	4	4	4.73	4.73	4.73	4.73	4.73	4.73	4.73	4.73	4.73	4.82	4.82	4.82	4.82	4.82	4.82	4.82	4.82	4.82	4.82	4.82	1.47		
\$4,000,000 to \$5,000,000.....	1	1	4	4	4	4	4	4	4	4	4	4	4	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	4.85	1.67		
\$5,000,000 to \$10,000,000.....	1	1	4	4	4	4	4	4	4	4	4	4	4	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	1.51		
\$10,000,000 to \$15,000,000.....	1	1	4	4	4	4	4	4	4	4	4	4	4	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	1.73		
Over \$15,000,000.....	1	1	4	4	4	4	4	4	4	4	4	4	4	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	4.88	1.80		
Total.....	295	483	196	190	105	129	6.83	6.82	6.50	6.55	6.55	6.55	5.26	4.93	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.86	4.73	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	4.79	1.82		
Size groups, banks with earning assets of—																																				
Less than \$250,000.....	1.48	1.18	1.42	1.16	1.42	1.16	1.42	1.16	1.42	1.16	1.42	1.16	0.07	0.11	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	432.38	420.64	432.38	420.64	432.38	420.64	432.38	420.64	432.38	420.64	430.05	
\$250,000 to \$500,000.....	1.07	1.29	1.07	1.29	1.07	1.29	1.07	1.29	1.07	1.29	1.07	1.29	0.52	0.25	0.52	0.25	0.52	0.25	0.52	0.25	0.52	0.25	0.52	0.25	595.95	554.04	595.95	554.04	595.95	554.04	595.95	554.04	595.95	554.04	571.48	
\$500,000 to \$1,000,000.....	.64	.71	.64	.71	.64	.71	.64	.71	.64	.71	.64	.71	.87	.72	.87	.72	.87	.72	.87	.72	.87	.72	.87	.72	735.72	614.74	735.72	614.74	735.72	614.74	735.72	614.74	735.72	614.74	616.86	
\$1,000,000 to \$1,500,000.....	.25	.66	.25	.66	.25	.66	.25	.66	.25	.66	.25	.66	.84	.49	.84	.49	.84	.49	.84	.49	.84	.49	.84	.49	928.85	725.29	928.85	725.29	928.85	725.29	928.85	725.29	928.85	725.29	864.60	
\$1,500,000 to \$2,000,000.....	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	.49	1.33	.69	1.33	.69	1.33	.69	1.33	.69	1.33	.69	1.33	.69	775.39	690.55	775.39	690.55	775.39	690.55	775.39	690.55	775.39	690.55	695.59	
\$2,000,000 to \$3,000,000.....	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	.25	1.56	1.26	1.56	1.26	1.56	1.26	1.56	1.26	1.56	1.26	1.56	1.26	836.10	836.10	836.10	836.10	836.10	836.10	836.10	836.10	836.10	836.10	715.85	
\$3,000,000 to \$4,000,000.....	.37	.37	.37	.37	.37	.37	.37	.37	.37	.37	.37	.37	1.06	1.29	1.06	1.29	1.06	1.29	1.06	1.29	1.06	1.29	1.06	1.29	690.53	690.53	690.53	690.53	690.53	690.53	690.53	690.53	690.53	690.53	712.25	
\$4,000,000 to \$5,000,000.....	.68	.68	.68	.68	.68	.68	.68	.68	.68	.68	.68	.68	1.35	.86	1.35	.86	1.35	.86	1.35	.86	1.35	.86	1.35	.86	694.07	694.07	694.07	694.07	694.07	694.07	694.07	694.07	694.07	694.07	711.39	
\$5,000,000 to \$10,000,000.....	.68	.68	.68	.68	.68	.68	.68	.68	.68	.68	.68	.68	1.08	1.50	1.08	1.50	1.08	1.50	1.08	1.50	1.08	1.50	1.08	1.50	784.29	784.29	784.29	784.29	784.29	784.29	784.29	784.29	784.29	784.29	773.17	
\$10,000,000 to \$15,000,000.....	.35	.80	.35	.80	.35	.80	.35	.80	.35	.80	.35	.80	1.51	1.00	1.51	1.00	1.51	1.00	1.51	1.00	1.51	1.00	1.51	1.00	705.59	705.59	705.59	705.59	705.59	705.59	705.59	705.59	705.59	705.59	688.97	
Over \$15,000,000.....	.51	.25	.51	.25	.51	.25	.51	.25	.51	.25	.51	.25	.57	1.59	.57	1.59	.57	1.59	.57	1.59	.57	1.59	.57	1.59	859.23	859.23	859.23	859.23	859.23	859.23	859.23	859.23	859.23	859.23	692.91	
Total.....	.98	.77	.72	.41	.60	.82	.92	1.12	1.54	1.35	599.88	675.84	710.75	702.29	694.15	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14	683.14

TABLE V.—Earnings and expenses of member banks in the Chicago Federal reserve district, selected ratios for banks grouped by size of center and by size of bank, December 31, 1927, to December 31, 1928—Continued

Size groups, banks with earning assets of—	Percentage of net additions to profits to average capital funds						Percentage of interest paid on deposits to average gross deposits						Percentage of average time deposits to average gross deposits					
	A	B	C	D	E	Total	A	B	C	D	E	Total	A	B	C	D	E	Total
Less than \$250,000.....	0.29	0.44	4.56			0.32	1.90	1.68	2.77			1.92	35.87	40.59				36.85
\$250,000 to \$500,000.....	2.08	4.39	4.96			4.78	2.45	2.85	1.72			2.37	57.16	45.50	44.20			51.00
\$500,000 to \$1,000,000.....	11.38	5.63	4.92	3.96		4.78	3.15	2.52	2.15			2.34	65.96	52.98	37.91			53.20
\$1,000,000 to \$1,500,000.....			2.74	5.84	4.49	5.02	5.43	2.62	2.15	1.52	1.68	2.39	74.59	60.84	50.37	40.57	46.75	57.41
\$1,500,000 to \$2,000,000.....		10.49	4.73	8.21		6.77	4.45	2.47	2.16	1.59	1.56	2.28	38.00	57.95	55.98	38.00	54.24	56.78
\$2,000,000 to \$3,000,000.....			9.84	7.84		9.03	4.45	2.51	2.19	1.78	1.85	2.19	68.47	66.45	62.16	45.74	57.22	57.69
\$3,000,000 to \$4,000,000.....			11.31	7.19	6.82	8.50	2.67	2.67	2.36	1.86	1.07	2.11	62.79	62.79	65.19	45.69	48.36	47.50
\$4,000,000 to \$5,000,000.....				7.47	7.30	7.54			2.38	2.07	1.54	1.94				45.69	48.36	47.50
\$5,000,000 to \$10,000,000.....				7.66	11.99	8.85				2.03	1.81	1.94				50.91	53.72	52.35
\$10,000,000 to \$15,000,000.....				10.65	6.80	8.44				2.13	1.79	2.09				50.78	52.21	51.20
Over \$15,000,000.....				4.83	11.03	10.86				2.72	1.96	1.99				63.26	35.28	36.23
Total.....	3.58	5.55	6.53	7.88	10.67	9.39	2.51	2.41	2.29	2.09	1.94	2.03	56.82	56.88	57.60	49.13	36.48	41.83

NOTE.—Size of city denoted as follows: A, under 1,000; B, 1,000 to 5,000; C, 5,000 to 15,000; D, 15,000 to 100,000; E, 100,000 and over.

This tabulation presents more compactly a portion of the data given in Tables IV-A to IV-E, inclusive. Here will be found nine leading ratios, from those given in the tabulations mentioned, and also a recapitulation of the number of banks in each population group classified according to the volume of earning assets.

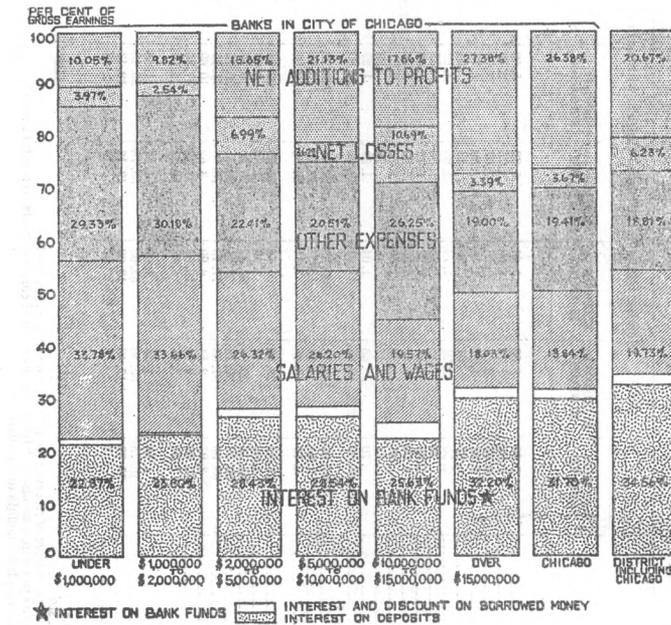
TABLE VI.—Earnings and expenses of member banks in the city of Chicago, banks grouped according to size, December 31, 1927, to December 31, 1928

Description of ratios	Member banks in the city of Chicago with earning assets of—										All member banks in the district		
	Less than \$1,000,000		\$1,000,000 to \$2,000,000		\$2,000,000 to \$5,000,000		\$5,000,000 to \$10,000,000		\$10,000,000 to \$15,000,000			Over \$15,000,000	Total
Percentage of the following to average earning assets: 1													
Interest and discount received 2	5.09	5.53	5.46	5.32	5.56	5.01	5.39						
All other earnings	1.88	1.12	1.09	1.75	2.19	1.86	1.16						
Interest on loans	0.52	0.55	0.58	1.07	1.75	1.54	1.84						
Interest paid on deposits	1.07	1.01	1.10	1.13	1.24	2.02	2.33						
Interest and discount on borrowed money	2.36	2.24	1.73	1.53	1.52	1.13	1.13						
Salaries and wages	.20	.15	.23	.33	.37	.39	1.20						
Taxes	1.85	1.86	1.22	1.12	1.66	.91	.38						
All other expenses	6.00	5.83	5.05	5.32	5.54	4.72	.85						
Total expenses	8.28	7.22	6.26	7.45	7.51	6.52	4.79						
Net losses	.98	.37	1.46	2.13	.83	2.95	1.16						
Net additions to profits	.70	.65	1.04	1.39	1.89	1.87	4.41						
Average investments (bonds and stocks)	68.02	40.83	41.01	30.09	19.80	22.71	1.35						
Percentage of the following to average capital funds: 3													
Average earning assets	307.65	563.16	703.99	727.61	723.22	673.81	693.14						
Net additions to profits 4	3.01	4.63	10.34	12.33	16.01	14.48	12.13						
Net assets to profits 4	2.16	3.98	7.31	16.87	10.01	12.62	13.95						
Percentage of the following to gross earnings:													
Interest paid on deposits	21.82	23.02	26.84	26.69	22.54	30.30	32.56						
Interest and discount on borrowed money	1.05	1.18	1.59	1.85	3.09	1.90	2.00						
Salaries and wages	33.78	33.66	26.32	26.20	19.57	18.03	19.73						
All other expenses	29.33	30.13	22.41	21.51	21.25	19.00	18.41						
Net losses	8.37	8.24	6.99	8.62	10.69	8.39	8.10						
Net additions to profits	10.65	9.82	15.85	21.21	27.38	27.38	36.23						
Dividends declared	7.24	5.68	8.67	12.21	14.01	14.13	20.67						
Percentage of the following to average gross deposits: 4													
Interest paid on deposits	1.68	1.65	1.68	1.81	1.53	1.94	2.05						
Average deposits	46.56	55.66	52.62	53.16	51.18	48.14	49.52						
Average capital funds	38.69	17.49	13.60	13.76	12.18	13.83	13.75						
Number of banks	3	5	22	15	3	15	63						

1 Includes total loans and total bonds and stocks.
 2 Includes interest and dividends on bonds and stocks.
 3 Includes capital funds.
 4 Equivalent to the ratio of net additions to profits to earning assets multiplied by the ratio of earning assets to capital funds.
 5 Includes demand, time, and Government deposits plus amounts due to banks.

Data similar to that given in Table I are presented in Table VI and accompanying graph, Table VII. It will be noted that for the Chicago banks, the ratio of gross earnings to earning assets was higher than for the rest of the district, totaling 6.84 per cent as the result of heavier "other" earnings, inasmuch as interest and discount received averaged lower. Expenses on the basis of earning assets averaged the same as for banks outside the city of Chicago, 4.79 per cent, declines in interest on deposits and tax payments offsetting larger "other" expenses. Net losses were considerably smaller and net additions to profits larger than for the rest of the district. In the distribution of gross earnings, expenses absorbed a lesser percentage as did losses, with resultant heavier addi-

TABLE VII.—Distribution of gross earnings of member banks in the city of Chicago, December 31, 1927, to December 31, 1928



tions to profits. Earning assets showed a lower ratio to invested capital and the latter was larger in comparison with gross deposits. Time deposits constituted 31.05 per cent of gross deposits, whereas in the rest of the district they comprised 49.87 per cent, while interest paid on deposits was 1.91 per cent against 2.12 per cent.

In comparison with the 1926 study, the ratio of earnings to earning assets of the Chicago banks was heavier in 1928, as were total expenses and losses, and also additions to profits. With respect to the distribution of gross earnings, expenses in 1928 were lower, largely offset, however, by greater losses, so that net additions to profits were smaller. The ratio of earning assets to invested capital declined, while that of invested capital to gross deposits increased. The ratio of time to gross deposits rose from 26.87 in 1926 to 31.05 in 1928, and the interest paid thereon from 1.80 to 1.91 per cent.

TABLE VIII.—Ratios of selected earnings and expense items to related bases, member banks in the Chicago Federal Reserve District, including the city of Chicago, December 31, 1927 to December 31, 1928

Size groups, banks with earning assets of—	Number of banks in each group	Total gross earnings				Interest and discount received			Interest on time deposits—average time deposits
		Interest and discount received		All other earnings	On loans		On investments—stocks and bonds ¹		
		On loans	On investments		Loans and discounts ¹	Investments			
Less than \$250,000.....	134	81.30	7.95	2.67	8.60	7.86	2.60	4.43	
\$250,000 to \$500,000.....	271	76.37	13.37	2.35	7.71	7.36	3.63	3.22	
\$500,000 to \$750,000.....	177	72.66	17.50	2.38	7.46	7.08	3.63	3.82	
\$750,000 to \$1,000,000.....	126	66.14	23.44	2.26	8.16	6.77	4.13	3.67	
\$1,000,000 to \$1,500,000.....	149	68.17	21.77	1.62	8.14	6.88	3.76	3.40	
\$1,500,000 to \$2,000,000.....	81	64.34	23.12	1.73	10.81	6.74	4.02	3.38	
\$2,000,000 to \$3,000,000.....	71	63.84	22.83	1.78	13.20	6.54	4.21	3.27	
\$3,000,000 to \$4,000,000.....	48	62.54	22.83	1.65	13.32	6.25	4.10	3.10	
\$4,000,000 to \$5,000,000.....	41	62.28	22.45	1.69	15.38	5.67	4.63	2.86	
\$5,000,000 to \$6,000,000.....	22	55.84	27.09	1.69	14.63	5.81	4.86	3.15	
\$6,000,000 to \$10,000,000.....	51	61.72	22.11	1.78	18.52	5.67	4.72	3.07	
\$10,000,000 to \$15,000,000.....	22	57.96	22.33	1.78	18.52	5.14	4.89	2.48	
Over \$15,000,000.....	30	60.65	17.32	1.10	21.03	5.14	4.89	2.48	
Total.....	1,239	61.82	19.64	1.41	17.74	5.96	4.58	2.86	

¹ These percentages represent only rough approximations of average rates of return, since they are based upon average amounts of loans and of investments for only five dates during the year.

TABLE IX.—Ratios of selected earnings and expense items to related bases, member banks in the Chicago Federal reserve district, excluding the city of Chicago, December 31, 1927, to December 31, 1928

Size groups, banks with earning assets of—	Number of banks in each group	Total gross earnings						Interest and discount received			Interest on time deposits—average time deposits
		Interest and discount received			All other earnings	On loans		On investments			
		On loans	On investments	On bank balances		Loans and discounts ¹	Stocks and bonds ¹				
								On loans	On investments		
Less than \$250,000.....	134	81.39	7.35	2.67	8.60	7.36	2.50	4.43			
\$250,000 to \$500,000.....	271	76.57	13.37	2.35	7.71	7.21	3.35	3.92			
\$500,000 to \$750,000.....	176	72.98	17.28	2.39	7.35	7.08	3.61	3.89			
\$750,000 to \$1,000,000.....	124	66.81	23.09	2.28	7.82	6.78	4.12	3.68			
\$1,000,000 to \$1,500,000.....	145	64.85	21.87	1.74	17.53	6.93	3.69	3.44			
\$1,500,000 to \$2,000,000.....	89	64.80	23.82	1.89	16.50	6.17	3.90	3.39			
\$2,000,000 to \$3,000,000.....	69	65.17	20.77	1.83	12.23	6.61	3.90	3.39			
\$3,000,000 to \$4,000,000.....	44	65.45	19.91	1.69	12.72	6.54	3.76	3.15			
\$4,000,000 to \$5,000,000.....	31	64.13	20.60	2.18	13.10	6.39	4.13	3.36			
\$5,000,000 to \$6,000,000.....	15	56.13	26.68	1.90	12.29	5.59	4.97	3.14			
\$6,000,000 to \$10,000,000.....	43	63.78	22.66	1.82	11.75	5.93	4.74	3.29			
\$10,000,000 to \$15,000,000.....	49	64.30	25.05	1.90	14.83	5.50	4.35	3.29			
Over \$15,000,000.....	20	64.37	25.00	1.18	9.36	6.10	6.37	2.89			
Total.....	1,176	65.01	22.69	1.68	10.61	5.86	4.84	3.20			

¹ These percentages represent only rough approximations of a average rates of return, since they are based upon average amounts of loans and of investments for only five dates during the year.

In the above tables are presented a number of additional ratios not included in the 1926 study, computed for certain selected earnings and expense items on their related bases. Interest and discount received, for example, was subdivided according to source, i. e., from loans, investments, or bank balances, and ratios were computed on the basis of the first two of these sources, as well as on gross earnings. The interest paid on time deposits was computed on the volume of such deposits.

Of the gross earnings of 1,176 member banks in the district without Chicago (Table IX), 65.01 per cent represented the interest and discount received on loans, 22.69 per cent the income from investments, 1.68 per cent the income from bank balances, and 10.61 per cent earnings from "other" or miscellaneous sources, such as exchange and collection charges, profits on investments, trust department, and other services. Interest and discount received on loans amounted to 5.86 per cent of the volume of loans, and income on investments was 4.84 per cent of the volume of investments.*

For the entire district (1,239 banks), including the city of Chicago—the interest and discount received on loans and investments constitutes a smaller proportion of gross earnings, due to the fact that "other" earnings are in greater proportion, 17.74 per cent against 10.61 as shown in Table IX. On the basis of the related earning assets, the Chicago banks tended to decrease also the ratios of the classified earnings items, the interest received on loans totaling 5.56 per cent, and that on investments 4.58 per cent.* The interest paid on time deposits by all member banks of the district embraced in the study, averaged 2.86 per cent of the volume of these deposits, while for banks outside Chicago this ratio was 3.20 per cent.

Governor YOUNG. I think that covers everything except the earnings and expenses of each Federal reserve bank, which I had the other day except for one column and that has been prepared. I shall put that in the record.

The CHAIRMAN. That will be inserted at this point.

(The figures referred to are here printed in full, as follows:)

EARNINGS AND EXPENSES OF EACH RESERVE BANK

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914-1929

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus ^a	Franchise tax paid to U. S. Government ^a	Profit (+) or loss (-) carried forward
All Federal reserve banks:							
1914-15.....	\$2,173,252	\$2,314,711	-\$141,459	\$217,463	.....	.....	-\$358,922
1916.....	5,217,998	2,467,000	2,750,998	1,742,774	.....	.....	+1,008,224
1917.....	16,128,339	6,548,732	9,579,607	6,801,726	\$1,134,234	\$1,134,234	+509,413
1918.....	67,584,417	14,868,107	52,716,310	5,940,684	48,334,341	.....	-1,158,715
1919.....	192,380,583	24,013,079	78,367,504	6,011,832	70,651,778	2,708,804	.....
1920.....	181,286,711	32,001,937	149,284,774	6,654,018	\$2,916,014	60,724,742	.....
1921.....	122,865,866	40,778,641	82,087,225	6,119,673	15,993,086	59,974,466	.....
1922.....	50,498,699	34,000,963	16,497,736	6,307,035	-659,904	10,850,605	.....
1923.....	50,708,566	37,997,280	12,711,286	6,552,717	2,545,513	3,613,056	.....
1924.....	38,340,449	34,622,269	3,718,180	6,682,496	-3,077,962	113,646	.....
1925.....	41,800,706	32,351,640	9,449,066	6,915,958	2,473,808	59,300	.....
1926.....	47,599,595	30,937,850	16,611,745	7,329,169	8,464,426	818,150	.....
1927.....	43,024,484	29,976,235	13,048,249	7,754,539	5,044,119	249,591	.....
1928.....	64,052,860	31,930,839	32,122,021	8,458,463	21,078,899	2,584,650	.....
1929.....	70,955,496	34,552,755	36,402,741	9,583,913	22,535,597	4,283,231	.....
Total.....	904,628,021	389,412,038	515,215,983	90,672,460	277,433,949	147,109,574	.....

^a Amounts shown as transferred to surplus account for 1922 are net, i. e., after the deduction of amounts charged to surplus account on Dec. 31, 1922, and paid to the United States Government as franchise tax. For prior years as follows: For 1920—New York, \$270,389; for 1921—Boston, \$247,350; New York, \$1,334,160; Philadelphia, \$56,966; Richmond, \$20,459; Atlanta, \$213,629; Chicago, \$710,190; Minneapolis, \$52,423; Kansas City, \$208,170; San Francisco, \$306,926; total, \$3,129,673.

^{*} See footnote to Tables VIII and IX.

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914-1929—Continued

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus	Franchise tax paid to U. S. Government	Profit (+) or loss (-) carried forward
Boston:							
1914-15	\$125,459	\$160,062	-34,603				-\$34,603
1916	490,888	194,953	295,935	\$249,735			+46,200
1917	1,285,884	545,525	740,359	601,756	\$75,100	\$75,100	-11,597
1918	4,475,195	1,170,015	3,305,180	384,180	2,921,000		
1919	7,497,583	1,720,202	5,777,381	414,447	5,362,934		
1920	12,273,253	2,000,689	10,272,564	447,266	7,351,799		2,473,499
1921	6,968,662	2,687,309	4,281,353	473,109	772,324		3,035,920
1922	3,541,313	2,445,911	1,097,402	481,951	-170,782		786,253
1923	3,506,683	2,254,548	1,252,135	480,267	77,187		694,681
1924	2,559,016	2,088,594	470,422	477,798	-7,376		
1925	3,288,546	2,147,965	1,140,581	502,648	637,933		
1926	3,319,077	2,162,204	1,156,873	525,023	585,888		45,962
1927	2,975,357	2,137,745	837,612	550,446	287,166		
1928	4,465,342	2,148,820	2,316,522	590,830	1,725,692		
1929	5,160,881	2,394,697	2,766,184	634,112	2,132,072		
Total	61,933,089	26,257,239	35,675,850	6,813,568	21,750,887		7,111,395
New York:							
1914-15	345,035	468,922	-123,887				-123,887
1916	971,026	556,962	414,064	127,113			+286,951
1917	4,928,214	1,850,733	3,078,481	1,942,819	649,363		-163,064
1918	15,314,736	3,651,819	21,662,917	1,195,026	20,467,891		
1919	25,332,412	7,372,793	27,959,619	1,291,047	23,964,678		2,703,894
1920	60,525,321	7,397,191	53,128,130	1,477,096	12,332,523		39,318,511
1921	34,710,274	8,616,442	26,093,832	1,608,721	3,782,671		20,702,440
1922	11,349,279	7,627,686	3,721,593	1,652,138	-1,397,603		3,467,058
1923	11,413,183	8,369,504	3,043,679	1,749,239	129,444		1,164,996
1924	8,569,350	7,952,498	616,852	1,796,530	-1,179,678		
1925	10,217,174	7,113,876	3,103,298	1,888,196	1,215,102		
1926	10,600,968	6,851,220	3,749,748	2,100,191	1,649,557		
1927	10,647,759	6,927,158	3,720,601	2,327,355	1,393,246		
1928	18,483,042	7,464,609	11,018,433	2,743,725	8,274,706		
1929	19,314,279	7,051,065	12,263,214	3,544,314	8,718,910		
Total	262,723,052	89,272,468	173,450,584	25,443,510	80,000,812		68,006,262
Philadelphia:							
1914-15	113,972	145,489	-31,517				-31,517
1916	448,180	198,239	249,941	128,458			+121,483
1917	1,095,540	341,665	753,875	623,603			+130,272
1918	4,357,740	1,385,651	2,972,089	583,983	6,196,344		-220,238
1919	8,609,880	1,950,711	6,659,169	462,380	6,196,789		
1920	11,848,551	2,783,435	9,065,116	496,679	8,204,773		363,662
1921	8,008,095	2,668,641	5,339,454	517,663	935,239		3,886,552
1922	4,251,950	2,015,074	2,236,876	541,552	803,594		891,730
1923	4,592,771	2,414,934	2,177,837	582,292	1,178,588		416,957
1924	2,915,846	2,168,754	747,092	615,135	131,957		
1925	3,135,550	2,057,430	1,078,120	673,212	404,908		
1926	3,626,648	2,092,915	1,533,733	730,598	803,135		
1927	3,363,626	2,187,157	1,176,469	781,540	394,299		
1928	5,394,546	2,111,905	3,282,641	843,755	2,438,886		
1929	6,076,048	2,274,060	3,801,988	938,312	2,863,676		
Total	67,838,943	26,796,060	41,042,883	8,519,162	26,964,820		5,558,901
Cleveland:							
1914-15	113,815	169,589	-55,774				-55,774
1916	452,129	158,321	293,808	143,237			+150,571
1917	1,367,216	613,534	753,682	716,168			+37,514
1918	5,236,864	1,061,063	4,155,796	716,107	3,552,000		-132,311
1919	7,800,820	1,707,044	6,093,785	556,785	5,637,000		
1920	14,458,619	2,638,588	11,820,031	604,194	11,215,837		
1921	9,390,863	3,106,480	6,284,383	660,228	2,329,442		3,294,713
1922	4,994,282	2,725,594	2,268,688	692,436	861,264		714,988
1923	4,655,090	3,733,869	921,221	725,626	195,595		
1924	3,770,689	4,243,842	-473,153	756,152	-1,229,305		
1925	4,236,864	2,802,880	1,433,984	778,811	431,785		
1926	4,517,884	2,457,122	2,060,762	808,505	832,257		
1927	4,197,836	3,089,646	1,108,190	832,583	275,607		
1928	6,250,553	3,069,838	3,180,715	856,843	2,323,872		
1929	6,986,580	3,281,138	3,705,442	910,007	2,795,435		
Total	78,196,705	35,288,553	42,908,152	9,757,682	29,140,769		4,009,701

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914-1929—Continued

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus	Franchise tax paid to U. S. Government	Profit (+) or loss (-) carried forward
Richmond:							
1914-15	\$319,580	\$144,625	\$174,955	\$151,940			+\$23,015
1916	334,102	147,531	186,571	197,922			-11,351
1917	821,195	358,971	462,224	240,944	\$116,472	\$116,472	-11,664
1918	2,979,048	667,018	2,312,030	232,432	2,079,598		
1919	4,775,324	898,058	3,877,266	252,872	3,624,394		
1920	6,902,643	1,664,137	5,238,506	285,052	4,949,869		204,585
1921	6,729,879	2,336,052	4,393,827	322,263	685,732	3,377,632	
1922	2,832,944	1,965,496	867,448	333,321	32,954		501,173
1923	2,878,896	1,786,053	1,092,843	342,295	384,404		366,144
1924	2,210,240	1,830,449	379,791	351,251	28,540		
1925	2,182,460	1,606,350	576,110	358,162	217,948		
1926	2,429,017	1,701,372	727,645	363,957	279,216		84,472
1927	2,086,903	1,588,592	497,711	372,230	125,481		
1928	2,857,648	1,738,688	1,118,960	370,683	74,828		673,449
1929	3,299,609	1,957,384	1,342,225	368,601	97,362		876,262
Total	43,638,688	20,390,776	23,247,912	4,551,865	12,495,858	6,200,189	
Atlanta:							
1914-15	236,460	153,928	82,532				+\$2,532
1916	279,520	150,213	129,307	201,719			-72,412
1917	589,789	301,706	288,083	218,203	40,000	40,000	-10,120
1918	2,293,058	640,585	1,652,473	182,473	1,470,000		
1919	4,416,001	1,033,604	3,382,397	197,397	3,185,000		
1920	7,476,431	1,466,107	6,010,324	225,571	5,784,753		2,136,288
1921	7,406,652	1,910,433	5,496,219	245,862	770,157	4,480,251	
1922	2,352,736	1,680,006	672,730	236,618	-172,018		588,130
1923	2,682,314	2,330,135	352,179	264,622	8,756		78,801
1924	1,907,121	1,634,465	272,656	272,656			
1925	2,072,378	2,046,187	26,191	276,488	-250,297		
1926	3,045,867	1,817,540	1,228,327	296,573	931,754		
1927	2,067,839	1,397,935	669,904	305,817	364,087		
1928	3,578,136	1,884,171	1,693,965	312,259	558,425		823,201
1929	4,116,049	2,687,531	1,428,518	21,696	303,032		803,790
Total	44,520,371	21,134,546	23,385,825	3,577,954	10,857,310	8,950,561	
Chicago:							
1914-15	268,885	248,794	20,091				+\$20,091
1916	665,937	262,731	403,206	361,319			-41,887
1917	2,083,164	851,285	1,231,879	862,259	215,799	215,799	-61,978
1918	8,481,747	1,676,666	6,805,081	694,635	6,200,446		
1919	12,012,078	3,435,874	8,576,204	700,807	7,875,397		
1920	30,303,218	4,427,469	25,875,749	792,769	14,688,500	10,394,480	
1921	20,382,170	5,877,053	14,505,117	853,785	2,075,323	11,576,009	
1922	6,748,863	5,343,648	1,405,215	876,203	-657,289	1,186,301	
1923	6,511,359	5,333,004	1,178,355	904,371	27,298		246,586
1924	5,202,169	4,293,046	909,123	909,123			
1925	5,424,003	4,303,390	1,120,613	934,016	187,257		
1926	6,567,043	4,313,120	2,253,923	985,959	1,267,964		
1927	6,167,352	4,239,707	1,927,645	1,029,990	897,655		
1928	8,936,418	4,172,989	4,763,429	1,099,761	3,663,668		
1929	9,889,451	4,464,786	5,424,665	1,170,363	3,651,464	602,838	
Total	129,644,717	53,243,562	76,400,955	12,085,360	40,093,582	24,222,013	
St. Louis:							
1914-15	86,833	184,002	-97,169				-\$97,169
1916	297,948	156,931	141,017	31,106			+109,917
1917	773,106	170,950	602,156	284,566			+217,590
1918	2,676,828	899,018	1,777,810	404,838	1,603,310		-230,338
1919	3,884,478	1,529,324	2,355,154	234,660	2,120,494		
1920	7,180,117	2,304,551	4,875,566	253,711	4,621,855		
1921	5,166,315	2,214,389	2,951,926	270,253	1,042,564	1,639,109	
1922	2,456,447	1,808,875	647,572	283,166	276,540	87,956	
1923	2,753,435	1,571,272	1,182,163	296,810	407,070	478,283	
1924	1,688,143	1,484,206	203,937	304,976	-101,039		
1925	2,055,637	2,149,177	-93,540	306,753	-400,293		
1926	2,511,509	1,828,487	683,022	314,420	368,602		
1927	2,228,079	1,452,398	775,681	317,727	457,954		
1928	2,901,925	2,116,766	785,159	321,855	423,011	49,293	
1929	3,247,936	2,362,052	885,884	319,231	56,635	509,988	
Total	39,908,736	22,332,398	17,576,338	3,944,066	10,876,643	2,755,629	

Gross and net earnings of each Federal reserve bank, and disposition made of net earnings, 1914-1929—Continued

Federal reserve bank	Gross earnings	Expenses, depreciation, allowances, etc.	Net earnings	Disposition of net earnings			
				Dividends paid	Transferred to surplus	Franchise tax paid to U. S. Government	Profit (+) or loss (-) carried forward
Minneapolis:							
1914-15	\$100, 112	\$132, 453	-\$32, 341				-\$32, 341
1916	255, 177	120, 574	134, 603	\$57, 720			+76, 883
1917	672, 799	278, 446	394, 353	363, 895	\$37, 500	\$37, 500	-44, 542
1918	2, 049, 954	504, 107	1, 545, 847	168, 103	1, 377, 744		
1919	3, 007, 041	673, 098	2, 333, 943	180, 186	2, 153, 757		
1920	5, 307, 381	1, 176, 328	4, 131, 053	195, 871	3, 410, 948		524, 234
1921	4, 966, 311	1, 815, 157	3, 151, 154	211, 657	488, 530		2, 450, 967
1922	1, 869, 248	1, 185, 553	752, 695	213, 774	4, 469		664, 452
1923	1, 749, 253	1, 423, 798	325, 455	212, 733	11, 272		101, 450
1924	1, 609, 070	1, 279, 968	329, 102	202, 828	12, 628		113, 646
1925	1, 438, 341	1, 203, 387	234, 954	193, 560	4, 139		37, 255
1926	1, 622, 333	1, 174, 300	448, 033	187, 609	26, 043		234, 381
1927	1, 390, 031	1, 093, 954	296, 077	180, 726	11, 535		103, 816
1928	1, 710, 304	1, 095, 600	614, 704	181, 203	43, 550		390, 151
1929	1, 926, 031	1, 131, 269	794, 762	184, 030	61, 073		549, 659
Total	29, 773, 386	14, 288, 992	15, 484, 394	2, 733, 895	7, 642, 988	5, 107, 511	
Kansas City:							
1914-15	102, 474	169, 250	-66, 776				-66, 776
1916	880, 208	155, 219	724, 989	66, 707			+155, 282
1917	1, 002, 680	436, 256	566, 424	364, 503			+201, 381
1918	3, 451, 936	1, 014, 188	2, 437, 748	309, 729	2, 421, 426		-293, 407
1919	4, 961, 482	1, 038, 120	3, 923, 362	228, 755	3, 694, 607		
1920	7, 409, 987	1, 869, 906	5, 540, 081	287, 672	3, 042, 731	2, 240, 228	
1921	5, 712, 858	2, 656, 762	3, 056, 096	268, 620	486, 918	2, 300, 558	
1922	3, 094, 600	2, 311, 624	783, 036	275, 655	-157, 432	664, 813	
1923	2, 993, 919	2, 646, 208	347, 711	275, 313	7, 240	65, 158	
1924	2, 262, 910	2, 516, 092	-253, 182	265, 697	8, 729		-518, 879
1925	2, 309, 985	2, 027, 064	282, 921	258, 426	2, 450		22, 045
1926	2, 677, 340	1, 920, 871	756, 469	252, 764	50, 370		453, 335
1927	2, 304, 938	1, 890, 212	414, 726	252, 753	16, 198		145, 775
1928	2, 597, 968	1, 938, 208	659, 760	253, 254	40, 651		365, 555
1929	2, 976, 576	1, 962, 990	1, 013, 586	286, 549	75, 704		681, 333
Total	44, 239, 901	24, 552, 370	19, 687, 531	3, 586, 397	9, 162, 034	6, 939, 100	
Dallas:							
1914-15	244, 666	169, 278	75, 388	65, 523			+9, 865
1916	326, 372	160, 326	166, 046	134, 006			+32, 038
1917	621, 970	269, 903	352, 067	188, 234			+163, 833
1918	2, 089, 526	849, 351	1, 240, 175	261, 503	1, 194, 408		-205, 736
1919	3, 062, 251	1, 020, 387	2, 041, 864	196, 535	1, 945, 529		
1920	4, 904, 522	1, 676, 291	3, 228, 231	225, 424	3, 002, 807		
1921	4, 239, 574	2, 626, 010	1, 613, 564	252, 211	1, 361, 353		
1922	2, 085, 775	1, 731, 650	354, 125	251, 915	102, 210		
1923	2, 356, 436	2, 024, 154	332, 282	251, 429	80, 853		
1924	2, 157, 964	1, 892, 940	265, 024	249, 789	15, 235		
1925	1, 815, 626	1, 535, 491	278, 135	255, 239	22, 896		
1926	2, 127, 049	1, 269, 838	857, 211	257, 502	599, 706		
1927	1, 741, 922	1, 173, 713	568, 209	256, 310	311, 899		
1928	2, 119, 666	1, 406, 211	713, 455	258, 544	163, 301		291, 610
1929	2, 496, 030	1, 725, 639	770, 391	266, 613	244, 417		259, 361
Total	32, 387, 349	19, 531, 182	12, 856, 167	3, 370, 579	8, 934, 617	550, 971	
San Francisco:							
1914-15	115, 961	168, 319	-52, 358				-52, 358
1916	316, 511	205, 000	111, 511	43, 736			+67, 775
1917	385, 823	459, 758	456, 046	394, 776			+61, 283
1918	4, 187, 785	1, 318, 621	2, 869, 164	497, 675	2, 448, 174		-76, 685
1919	7, 021, 224	1, 633, 864	5, 387, 360	296, 161	5, 091, 199		
1920	12, 706, 668	2, 597, 845	10, 108, 823	384, 713	6, 654, 855	3, 069, 255	
1921	9, 184, 413	4, 263, 913	4, 920, 500	435, 361	1, 254, 824	3, 230, 315	
1922	4, 821, 202	3, 160, 846	1, 660, 356	448, 306	-185, 721	1, 397, 771	
1923	4, 615, 227	4, 109, 801	505, 426	467, 220	-37, 706		
1924	3, 487, 923	3, 237, 415	250, 508	430, 561	-230, 045		
1925	3, 848, 890	3, 358, 443	490, 447	490, 447			
1926	4, 554, 860	2, 998, 861	1, 555, 999	506, 068	1, 049, 931		
1927	3, 853, 442	2, 798, 018	1, 055, 424	547, 062	508, 362		
1928	4, 757, 292	2, 783, 034	1, 974, 258	625, 751	1, 348, 507		
1929	5, 466, 076	3, 260, 154	2, 205, 922	670, 085	1, 535, 837		
Total	69, 823, 284	36, 323, 892	33, 499, 392	6, 288, 422	19, 513, 629	7, 697, 341	

Mr. GOLDSBOROUGH. Governor Young, a letter was referred to the other day presented by Congressman Box, of Texas, written by George M. Craig, president of the Merchants National Bank, which is dated March 5. Mr. Craig says that he spends his vacations in Canada and is on rather intimate terms with the bankers up there.

They are frank to tell me they can do nothing without first consulting the parent bank which is usually located in Montreal. When money and credit are plentiful the local farmers, merchants, and the industries can get loans at the local bank without approval of the parent bank, and when conditions are the reverse, it is the larger merchants and industries in the larger centers that get the accommodations.

I also found that smaller accounts than \$300 were not wanted and acceptable in the small banks on account of not being profitable.

What, if anything, do you know about the conditions in Canada as reflected by this statement?

Governor YOUNG. I have an entirely different idea of the Canadian banking system, Mr. Congressman. My information, of course, comes entirely from talking with Canadian bankers. I am told that their branch managers are permitted to loan up to a certain amount. Others that have been with them a longer while are allowed a larger amount, and some of their branch managers have no limit as to the amount they can lend; \$2,500, I am informed, is the minimum limit that they have ever placed on a manager. Anything up to \$2,500 they can lend, as they see fit, without consulting either the division office or the head office. That is what they tell me and it seems to me that would be the logical way to operate it.

I do not think that every little small loan should be referred to the head office any more than the loans that the Federal reserve banks make to member banks should be referred to the Reserve Board. They never are.

Mr. GOLDSBOROUGH. What class of banks, if you do not object to saying, have you discussed the matter with? Have you discussed it with the officials of the parent banks or of the small unit and branch banks?

Governor YOUNG. My talks were with Mr. Rowley of the Canadian Bank of Commerce and, if I remember correctly, I also discussed it with Mr. McEackran. At that time he was the division superintendent of one of the Canadian banks.

Mr. GOLDSBOROUGH. Now, the first gentleman you spoke of—what was his position?

Governor YOUNG. I think at that time he was division superintendent. I think that was the title, and I think he was located at Winnipeg. Since then he has been made, I believe, general manager of the Canadian Bank of Commerce.

Mr. GOLDSBOROUGH. You never had any opportunity to investigate or make an investigation coming from the rural banks?

Governor YOUNG. I never have.

Mr. GOLDSBOROUGH. The suggestion is also made in this letter, as follows:

Another danger is that the powerful chain-store groups might dominate to an extent the heads of chain banks and cause the local banks to refuse credit to local merchants.

That same observation, of course, if it is valid, could be made as to branch banks. What, if any information, or opinion could you express on that observation?

Governor YOUNG. I have never thought of it, Mr. Congressman. As an impulsive reply, I would say it is a possibility, but that it is highly improbable.

Mr. GOLDSBOROUGH. Governor Young, can you tell me or give me any idea as to what percentage of the total banking resources of the country, State and National, are in cities and towns and villages of 25,000 population and under?

Governor YOUNG. I do not think that I could give you that accurately. I think that 698 reporting member banks would be fairly close to it. Did you say 25,000 or less?

Mr. GOLDSBOROUGH. Yes.

Governor YOUNG. I misunderstood the question. We can get that information for you, Mr. Congressman.

Mr. GOLDSBOROUGH. It would be interesting to me and probably to the committee, bearing on this question of the extension of branch banking into the rural districts.

Governor YOUNG. That information can be prepared.

Mr. GOLDSBOROUGH. It will be convenient for you to do that?

Governor YOUNG. Yes; and we shall be glad to do it.

Mr. GOLDSBOROUGH. Governor, it would be very interesting to this committee and to the House and to the country to know where the pressure is actually coming from for an extension of branch banking into the rural districts, and, having that in mind, I should like to ask you if you can name any community which now has unit banking or any bank, in any such community, which is asking for an extension of branch banking involving that community?

Governor YOUNG. Well, I would have to answer, Mr. Congressman, that I can not recall anyone at the moment. I assume that those banks in the smaller communities that have voluntarily joined up with these groups would prefer branch banking, but I can not make that as a positive statement.

Mr. GOLDSBOROUGH. Have any banks joined up with these groups or chains or branches except those of two classes; one class, in which the unit bank has been driven to effect a consolidation because of what would be termed unfair competition, that is, competition of a kind, the direct purpose of which would be to drive out competition (that would be one class), and another class, those banks who have been offered a very abnormal price for their stock and have sold out, therefore, simply as a purely commercial proposition?

Governor YOUNG. Well, I would prefer, Mr. Congressman, to have those people who have been engaged in the formation of these groups answer those questions. I have not talked with them about those points that you bring up. I would say that every bank in the Northwest that has joined a group has done it voluntarily. I speak about the Northwest because that is the territory with which I am more familiar.

I think some of the banks in those groups that were in difficulties, that their directors did not care to carry on any further, paid a voluntary assessment, cleaned the institution out, and were glad to turn it over to a group.

Now I am informed by both the Northwestern groups that they have not taken any banks except those that were agreeable to the proposal that they had to make to them and I am further informed that there have been many applications received by both of those

groups that they have not, as yet, taken into the groups. That comes about because the applications come very rapidly and they are conservative men and do not care to expand too rapidly until they know where they are going.

Mr. GOLDSBOROUGH. Do you believe that these groups or chains or branch banks would be the ones who would be most apt to give us the information that would accurately portray the situation?

Governor YOUNG. Yes, and I think it would be advisable for the committee to invite in some of the remaining independent bankers and learn what their experience has been.

Mr. GOLDSBOROUGH. Now, as I understand you, you know of no community which now has the independent banking system—no rural community—that is a community affected by the trade area system advocated by yourself and Mr. Pole, which is asking for an extension of branch banking into that community?

* Governor YOUNG. I do not know of any, but I believe that there are some.

Mr. GOLDSBOROUGH. Your attention has not been called to any?

Governor YOUNG. Not to any specific instance.

Mr. GOLDSBOROUGH. And no appeal has been made to you or, as far as you know, to the board from such a community to facilitate the passage of this legislation?

Governor YOUNG. No, sir.

Mr. GOLDSBOROUGH. Governor Young, the McFadden bill, which extended branch banking in metropolitan centers, first came up for consideration, I think, in 1925 and then again in 1927, when it was passed. I was not here in 1927, but I remember very distinctly that those who opposed the McFadden bill in 1925, definitely argued and consistently argued that if the extension was granted, it would inevitably lead to a demand for further extension into the rural districts. What I mean is that this very condition which apparently exists now, was prophesied with absolute accuracy when that bill was up for consideration and I remember distinctly the advocates of that measure declared that if that measure were passed, it would put the national banks on a parity with State banks, practically speaking and, as a matter of fact, instead of being a branch banking bill, it was an anti-branch banking bill, and it was on that basis that the bill was passed. It was that assurance gotten into the minds of a sufficient number of Members of Congress, in the House and Senate, that caused that bill to pass.

Is it not a fact that the pressure for this legislation is coming from the larger institutions who want to absorb these various territories and not from the territories themselves?

Governor YOUNG. I could not say that, Mr. Congressman.

Mr. GOLDSBOROUGH. Well, it is coming from somewhere, evidently, because you never have legislation up for consideration unless some one wants it. Legislation is never considered for philanthropic purposes. That, I mean, is simply out of the question. There is somebody who is advocating this—some economic group advocating this legislation, evidently.

Governor YOUNG. I think, Mr. Congressman, it probably originated with the Comptroller of the Currency.

Mr. GOLDSBOROUGH. That was his view?

Governor YOUNG. Branch banking? Yes.

Mr. GOLDSBOROUGH. You do not think that the larger banks, which have branches in the cities, are behind this legislation?

Governor YOUNG. I think they are, exclusive of New York and Chicago and possibly some other large centers.

Mr. GOLDSBOROUGH. You think they are?

Governor YOUNG. No; I think New York and Chicago—

Mr. GOLDSBOROUGH. You think New York and Chicago are not, as I understand you.

Governor YOUNG. I do not think they are back of branch banking.

Mr. GOLDSBOROUGH. But the other centers, as far as you know, are back of branch banking?

Governor YOUNG. I would have to exclude certain centers.

Mr. GOLDSBOROUGH. They are in favor of this particular sort of extension into the rural centers, outside of the metropolitan centers?

Governor YOUNG. It is pretty hard for me to answer for another man.

Mr. GOLDSBOROUGH. I do not want you to answer if you do not know. I thought you had some information about it.

Governor YOUNG. What I have observed of the development of the group banking systems throughout the various sections of the United States and from the information that has been furnished to the committee as to the volume that it has reached, it is reasonable to assume they approve of what they are doing.

The CHAIRMAN. Governor Young spoke of the fact that New York and Chicago are not in favor of this plan of extension of branch banking. I suppose you refer to the plan suggested by the Comptroller, Mr. Pole?

Governor YOUNG. Yes; and I do not know that I should answer that way, Mr. Congressman. This is just casual talk.

The CHAIRMAN. Will you explain what Chicago and New York are opposed to?

Governor YOUNG. I have talked with some New York bankers and I have read some articles by other New York bankers, and I would gather from those talks and from those articles, that they are opposed to the extension of branch banking.

Mr. GOLDSBOROUGH. Do you object to giving your views of their reasons for objecting to the extension of branch banking?

Governor YOUNG. I would like to get the articles and quote them accurately.

Mr. GOLDSBOROUGH. If you have an opinion as to why they are opposed to branch banking—and I do not know whether you have an opinion or not—but if you do, you prefer not to give it? I might say I think it is very important for us to know why they are opposed to branch banking.

Governor YOUNG. I was thinking of one particular bank. They believe in the unit bank and the correspondent system of banking in the United States so strongly that one of their officers has appeared in public in opposition to the extension of branch banking.

The CHAIRMAN. You mean Mr. Davidson of the Central Hanover, I presume?

Governor YOUNG. That is the gentleman I had in mind. It has been some time since I read his article, however.

The CHAIRMAN. I should like to ask, in view of the statement you have made, whether or not one or more of the banks in New York and Chicago have lodged with the board their views on this particular question?

Governor YOUNG. No bank has lodged its views.

The CHAIRMAN. They have not given an expression of their views to the board?

Governor YOUNG. No.

The CHAIRMAN. I should like to ask another question. Have you any idea of the kind of banking that they want to do? I have gained the impression from your answers that they would prefer a continuance of the unit banking throughout the country, with contacts through correspondents.

Governor YOUNG. In so far as that one particular bank is concerned; yes.

The CHAIRMAN. That does not apply to the banks generally in those cities?

Governor YOUNG. Well, I have talked with two other bankers that I remember and they seemed to have the feeling that we were not ready for branch banking in this country at the present time and, for that reason, I gathered that they were opposed to an extension of branch banking.

The CHAIRMAN. The reason I asked those questions was due to the fact that a vice president of one of the large banks in New York, doing branch banking, said to me a year ago last October, in discussing the possible extension of branch banking through national legislation, that if they did not get legislation, it was coming anyway; that it was necessary to run pipe lines around this country and head them into New York and if we did not authorize it by national legislation, they would proceed under State authority or chain ownership; that it was bound to come. Now, Mr. Goldsborough.

Mr. STRONG. May I have a moment there?

Mr. GOLDSBOROUGH. Yes.

Mr. STRONG. It was stated this country was not ready for branch banking. What did you think he meant by that?

Governor YOUNG. Well, the technical set-up of a nation-wide branch banking system, with all the mechanics that are involved and the development of people to operate the various divisions, takes time. It took 50 or 100 years in England.

Mr. STRONG. That would indicate they desired it but they were not ready for it?

Governor YOUNG. No; I rather got the impression from them, Mr. Congressman—from those two men—that they would prefer not to have it, but, as the chairman has said, they felt it was inevitable and it was coming.

It is very hard for me to express another man's views. I did not go into it in any detail at the time. I am simply trying to give the committee the impression I got.

Mr. STRONG. I think the record should show that when we were considering the McFadden bill, New York bankers came down here and insisted on clauses that would give them the right to have branches in New York.

Governor YOUNG. Well, they have them in New York.

Mr. STRONG. Now they want them in New York and also in the rest of the country.

Governor YOUNG. I think, generally speaking, New York has refrained from going outside of the city.

Mr. STRONG. Of course they are prohibited from doing that under the McFadden bill, if they are national banks.

Governor YOUNG. I mean even by groups or chains.

Mr. GOLDSBOROUGH. Last Wednesday I think I stated, according to figures given to me by Mr. Smead, the banks in Greater New York City, State and National, had a total capital of \$1,155,063,000 and, in answer to a question by me, you stated the total deposits of all banks in the United States, State and National, amounted to about \$4,000,000,000.

Governor YOUNG. That was capital.

Mr. GOLDSBOROUGH. I mean capital; yes.

Governor YOUNG. That is just capital. The New York figures* were also just capital.

Mr. GOLDSBOROUGH. That means, of course, that Greater New York alone—that is, the city—has more than one-fourth of the total capital of all the banks in the United States. Now, does not that indicate a strong trend toward monopoly, in your mind?

Governor YOUNG. To answer that, Mr. Congressman, I should like to refer to the figures that the Comptroller of the Currency, I believe, has introduced in the record, showing the total deposits of banks in various cities in the United States in 1914 and again in 1929, and showing the percentage of increase in various large cities throughout the United States.

The increase in deposits in the United States from July, 1914, to July, 1929, was 180 per cent.

Without New York City, it is slightly below the average—172 per cent.

In New York City the increase is 217 per cent. Of the 16 cities listed, the highest increase of any place in the United States, during that period, is Detroit, where it is 466 per cent and, in making that statement, I am not including San Francisco, because in San Francisco there has been a very large increase because of the branch banking system in California all of the deposits of which are now listed under San Francisco; whereas in 1914, they were not.

Dallas, during that period, has increased 437 per cent. Atlanta has increased—

Mr. GOLDSBOROUGH. That is State and National banks?

Governor YOUNG. All banks; yes. Atlanta has increased 234 per cent.

So, the increase throughout the United States, Mr. Congressman, has averaged 180 per cent, of which the increase in New York is 217 per cent, and the highest, excluding San Francisco, is Detroit, 466 per cent.

So that increase has been general throughout the United States.

Mr. GOLDSBOROUGH. As I understand you, outside of the branch banking systems in California, the only increases higher than the New York banks have been in Detroit and Atlanta—is that correct?

Governor YOUNG. No; there has been a higher increase in Cleveland.

Mr. GOLDSBOROUGH. How much was that?

Governor YOUNG. Two hundred and twenty-five per cent for Cleveland. I will name all of them. Chicago, practically the same—210 per cent; Cleveland, 225 per cent; Atlanta, 234 per cent.

Mr. GOLDSBOROUGH. Atlanta, Ga.?

Governor YOUNG. Yes.

Mr. GOLDSBOROUGH. I thought you said that was four hundred and something?

Governor YOUNG. No; 234 per cent.

Minneapolis, 184 per cent; Dallas, 437 per cent; San Francisco, I am not giving because of the branch situation out there; Detroit, 466 per cent.

The lowest increase was 97 per cent and, because of adverse publicity, I will not name the city.

Mr. GOLDSBOROUGH. What was Baltimore? Have you that there?

Governor YOUNG. One hundred and forty-four per cent.

Mr. GOLDSBOROUGH. Now, do you not think, in view of the average of 180 per cent, with New York 217 per cent, that shows a trend toward New York, even though these isolated instances, which you mentioned, do exist?

Governor YOUNG. I would say it is very slight.

Mr. GOLDSBOROUGH. Governor, I have here a clipping from the Baltimore Evening Sun of March 24, an article dated New York, March 24, written by Preston R. Krecker. In speaking of a statement by Mr. McGarragh, former chairman of the Federal Reserve Bank of New York, in his annual report of 1929, this article states:

In that document, Mr. McGarragh, who has since resigned to become the president of the Bank for International Settlements in Basle, Switzerland, states that for a number of weeks, from February to May for last year, the New York bank's directors repeatedly voted an increase in the bank's discount rate only to be overruled each time by the Washington body. It will be recalled that the rate was eventually raised, but not until the following August, months after the bank's directors first thought credit conditions called for an increase.

Is that an approximately correct statement of what occurred in 1929?

Governor YOUNG. A very accurate statement.

Mr. GOLDSBOROUGH. Now, will you state the board's reasons for not granting that permission to the New York Federal Reserve Bank and, in connection with that question, I think I should say that I personally felt away back early in 1928 that if the discount rates were not raised we would have a collapse in this country.

Governor YOUNG. I shall be very glad to speak for the Board. In January, 1929, after the seasonal requirements were out of the way, there was a return flow of currency, reducing the amount of member banks' indebtedness, as it does every year. Speculation was proceeding at a very rapid rate. Speculative credit was expanding to such an extent that the board felt that some direct action—moral suasion or whatever you want to call it—was an advisable thing for the system to do at that time.

Mr. GOLDSBOROUGH. That was in 1928?

Governor YOUNG. That was 1929.

Mr. GOLDSBOROUGH. 1929?

Governor YOUNG. 1929; yes.

With that thought in mind, the board dispatched a communication to each of the reserve banks in reference to speculative credits, while

banks were simultaneously borrowing from the Federal reserve banks. The reaction to that letter was very good from practically every reserve bank.

On February 14 or 15—I can not recall the date now—the Federal Advisory Council was here in Washington and approved the action of the board. Previously to that, the Federal Reserve Board had issued a public statement appealing not only to the borrowers but to the lenders, with reference to this vast increase in the use of speculative credits.

The advisory council approved of the action of the Federal Reserve Board. The New York directors felt that that should be supplemented by an increase in the rate. The board felt that the results could be accomplished without the increase in the rate and I think I state accurately that between February and May, in so far as member banks were concerned, there was a reduction in security loans. There was, however, an increase in loans coming from non-banking sources and I will have to refer to Doctor Goldenweiser, but I think in May, brokers' loans were just about what they were in February. So, during that period, the board felt that its program of direct action was accomplishing results and it was not necessary to raise the rate, feeling if they did raise the rate, a great deal of the increase would be passed on to business.

In the latter part of May, up until August, there was a large increase of brokers' loans and other security loans, in member banks. Most of the increase came about, I believe, because of the great amount of stock rights that were issued at that time. In addition to that, the exchange of old currency for new currency required more Federal Reserve credit. The result of all this was that, in August, the rate request of 6 per cent was approved. It was initiated by the Federal Reserve Bank in New York and approved by the Federal Reserve Board.

From August until the latter part of September—

Mr. GOLDSBOROUGH. May I interrupt there? By August, had not the situation gotten entirely out of hand? Could any raise of the rediscount rate at that time, in view of the mental attitude of a great part of the public, be of any practical service?

Governor YOUNG. Well, there are many people within the system now that say that the 6 per cent rate in August did eventually, in October, have some effect on speculation. I think it had some effect, but a very slight effect. I think that the situation broke in October because the American public was ready to change its mind.

Mr. GOLDSBOROUGH. Your opinion is, as I understand it, that the board's action in not permitting a raise in rate in August was sound policy?

Governor YOUNG. I am speaking, Mr. Congressman, for the board.

Mr. GOLDSBOROUGH. You still think so?

Governor YOUNG. The board still thinks so.

The CHAIRMAN. Will you yield, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes; but I want to go along further along that line, Mr. Chairman. However, go ahead.

The CHAIRMAN. You mentioned a result to be accomplished in February, due to the change of your policy. What results were you referring to?

Governor YOUNG. Starting with August each year there is a seasonal requirement which, over a period of five years, has been shown to be in the neighborhood of \$300,000,000 additional Federal reserve credit that is needed between August and December, 1931. That is represented largely by currency requirements—additional currency that is used at that season of the year.

You will recall at that time the discount rate in New York was raised and the bill rate was lowered. It was believed that, if additional credit was to be put into the market, it would be better to have it go in through bills. It was believed that that would not increase the volume of the discounts and would not put any additional pressure on the member banks, which might tempt them again to raise rates to business throughout the country.

The CHAIRMAN. On the theory that it would be less apt to go into brokers' loans, that release of credit?

Governor YOUNG. Yes. Of course, it is extremely hard to earmark credit. Generally speaking, it is less easy for credit to seep into the speculative field through bills than—

The CHAIRMAN. This change in the policy by raising the discount rate to 6 per cent was with the view of taking care of that \$300,000,000 demand that occurred between August and December?

Governor YOUNG. Yes, sir; and in addition to that—

The CHAIRMAN. It was not aimed further to tighten and restrict money that was going into brokers' loans and into the stock market?

Governor YOUNG. Well, could I explain that in my own way, Mr. Chairman? I think by doing that I will perhaps answer your question.

The CHAIRMAN. Yes.

Governor YOUNG. In August the Federal reserve system found itself in this position, that it had a bill rate much higher than the discount rate—I think the minimum bill rate at that time was 5½ per cent and the discount rate was 5 per cent. That was rather inconsistent, having a bill rate, which is your prime paper, higher than the discount rate. So, partly to correct that situation and partly to say to the banks that were borrowing from the Federal reserve and simultaneously loaning for speculative purposes, "Go easy" and by reducing the bill rate to commerce and industry and saying to them, "Come on." That briefly was the policy as nearly as I can recall. I want to recall, also, that the discount rate was only raised in New York. It was not raised elsewhere.

The CHAIRMAN. You were classifying credit, then, were you not?

Governor YOUNG. Attempting to, by moral suasion or whatever you want to call it.

The CHAIRMAN. You referred to the period of raising rates in August. Did the international exchange situation come into consideration in connection with that change in rate?

Governor YOUNG. I am just trying to think of that particular time, Mr. Chairman, if you will give me a minute or two.

I will answer it this way: If my memory serves me correctly, I do not believe the international exchange was taken into consideration at that time.

The CHAIRMAN. What happened to the Bank of England rate at or about that period? Was it raised or lowered?

Governor YOUNG. The Bank of England raised its rate on February 7, 1929, from 4½ to 5½ per cent and nothing was done with their rate until September 26, when the rate was put up to 6½ per cent. That was about 40 days after the New York raise.

Mr. GOLDSBOROUGH. May I proceed?

The CHAIRMAN. Just one other question, if you will pardon me.

My question also embodied the period of February when the board sent out its notice, on February 6, as I recall it, admonishing the banks to observe a little more closely the requirements of borrowers.

That notice was aimed at what, Governor?

Governor YOUNG. That notice was aimed to attempt to restrain the tremendous expansion of speculative credit.

The CHAIRMAN. With particular reference to the increasing amount of brokers' loans?

Governor YOUNG. If I can read this statement, then I can state it accurately, Mr. Congressman.

The CHAIRMAN. That is the statement that was issued at that time?

Governor YOUNG. Yes.

The CHAIRMAN. Suppose we put that into the record. I am familiar with it. That will be done unless some member of the committee wants it read.

Mr. STRONG. I would like to hear it read.

The CHAIRMAN. All right; proceed with it.

Governor YOUNG. That statement was as follows:

The United States has during the last six years experienced a most remarkable run of economic activity and productivity. The production, distribution, and consumption of goods have been in unprecedented volume. The economic system of the country has functioned efficiently and smoothly. Among the factors which have contributed to this result, an important place must be assigned to the operation of our credit system and notably to the steadying influence and moderating policies of the Federal reserve system.

During the last year or more, however, the functioning of the Federal reserve system has encountered interference by reason of the excessive amount of the country's credit absorbed in speculative security loans. The credit situation since the opening of the new year indicates that some of the factors which occasioned untoward developments during the year 1928 are still at work. The volume of speculative credit is still growing.

Coming at a time when the country has lost some \$500,000,000 of gold, the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1½ per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future.

The Federal Reserve Board neither assumes the right nor has it any disposition to set itself up as an arbiter of security speculation or values. It is, however, its business to see to it that the Federal reserve banks function as effectively as conditions will permit. When it finds that conditions are arising which obstruct Federal reserve banks in the effective discharge of their function of so managing the credit facilities of the Federal reserve system as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them, which in the immediate situation means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit. In this connection the Federal Reserve Board, under date of February 2, addressed a letter to the Federal reserve banks, which contains a fuller statement of its position:

"The firming tendencies of the money market which have been in evidence since the beginning of the year—contrary to the usual trend at this season—make it incumbent upon the Federal reserve banks to give constant and close

attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

"The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

"The resources of the Federal reserve system are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal reserve act.

"The Federal reserve act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

"The board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal reserve act nor is it conducive to the wholesome operation of the banking and credit system of the country."

Mr. STRONG. What date was that?

Governor YOUNG. February 5, 1929.

The CHAIRMAN. That letter was sent to the different Federal reserve banks, was it not?

Governor YOUNG. Yes, sir.

The CHAIRMAN. And the effect of that letter on the Federal reserve banks was, of course, to examine more closely rediscounts that were offered from member banks. Did it have this effect, that it was a notice to member banks to discriminate on loans, and did the Federal reserve banks so direct member banks?

Governor YOUNG. From what I know of the operation of the Federal reserve banks, and having operated one for 10 years, I believe that that is the procedure that has been followed by the Federal reserve banks ever since they have been organized. I think the letter of the board was a remainder of what should be done. I think the subsequent statement of the Federal Advisory Council went beyond the Federal Reserve Board, and went right directly to the member banks.

The CHAIRMAN. Without objection, a copy of that communication from the Federal Advisory Council will be placed in the record at this point.

(There was no objection, and the communication referred to is as follows:)

The Federal Advisory Council at a preliminary meeting yesterday made the following minute, which was delivered to the Federal Reserve Board at the regular quarterly meeting of the council and the board this morning:

"The Federal Advisory Council approves the action of the Federal Reserve Board in instructing the Federal reserve banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal Advisory Council suggests that all the member banks in each district be asked directly by the Federal reserve bank of the district to cooperate in order to attain the end desired. The council believes beneficial results can be attained in this manner."

Mr. BRAND. What was the date of that?

Governor YOUNG. Of the communication of the advisory council?

Mr. BRAND. Yes, sir.

Governor YOUNG. February 15, I think.

The CHAIRMAN. The point that I was making in that connection was that it seems to me from memory that that is the first time since the Federal reserve system was organized that by an official edict of the board and the advisory council the use to which proceeds of loans granted by member banks was attempted to be directed.

Was there ever another period when such was the case?

Governor YOUNG. I think that was mentioned in 1923 in our annual report.

Doctor GOLDENWEISER. 1923, and, in more detail, in 1926.

Governor YOUNG. What action individual reserve banks have taken publicly I do not know.

The CHAIRMAN. I recall that when Governor Strong of the Federal reserve bank appeared before this committee, he stated that the Federal reserve management had no jurisdiction over what use was to be put to the proceeds of loans granted by member banks.

Do you agree with Governor Strong's statement in that respect?

Governor YOUNG. From a practical and legal standpoint, yes; but I am quite sure that Governor Strong in his way practiced direct action in the New York district just as much as I did in the Minneapolis district.

Do not misunderstand me; I had the very highest regard for Governor Strong, and I do not think he intended to make any misstatement, but to a degree the Federal Reserve Bank of New York exercised direct action; there is not any question about that.

The CHAIRMAN. They did that last October, did they not?

Governor YOUNG. In specific cases.

The CHAIRMAN. Now, Mr. Goldsborough, I do not want to break in any further on your examination.

Mr. GOLDSBOROUGH. Governor, referring again to this article of Mr. Krecker's, the statement is made:

The point is that, in the opinion of many bankers, the devastating break in the stock market last autumn might have been averted had the central banks put the screws on the money market early in the year, as the New York bank's directors sought to do. As it was, the orgy of speculation on the stock exchange was continued for several months longer, while the bubble of inflation was blown bigger, with the result that when the boom did collapse the destruction was far-reaching.

As I understand it, speaking for the board, that is not your view?

Governor YOUNG. That is not the board's view, or was not the board's view, and they still retain the same view.

Mr. GOLDSBOROUGH. Another statement made in this article is as follows:

The suggestion is that when the directors of a regional reserve bank decide definitely on a change in the bank rate they make public their decision irrespective of whether Washington vetoes that decision or not. By so doing they would lift the veil of mystery which breeds uncertainty. The public would be advised at least of how the bank's directors feel about the credit situation and could be guided accordingly.

Under existing practice a very few become exclusively possessed of information of immense and general importance to all bankers and business men everywhere, while the latter are kept in the dark and grope along trying to find out where they stand. If, moreover, publicity should be given to a reserve bank's decision

the moment they are made the full responsibility for failure to make the desired change could then be placed squarely where it belonged.

What do you think particularly of his statement that information is gained by a limited number of individuals and groups that is not available to the entire business public?

Governor YOUNG. I do not think so. In the 12 years that I have been associated with the Federal reserve system, I have yet to hear of any officer or director—

Mr. GOLDSBOROUGH. I did not suggest that; I did not mean that. I did not mean to intimate, and I want this put in the record, that any officer or director of the Federal reserve system or of the Federal reserve bank used the information he acquired; I meant bankers and business men who were not officials of the Federal Reserve Board or the Federal reserve bank.

Governor YOUNG. Well, what others, Mr. Congressman, would have it?

Mr. GOLDSBOROUGH. That is just what I am trying to find out.

Governor YOUNG. No others would have it. I think I can illustrate that by stating what happened on February 15 when the New York board requested that the rate be raised to 6 per cent. You will recall that that was an all-day telephone session between the New York bank and the Federal Reserve Board, in which there were nine directors of the reserve bank in New York, eight members of the Federal Reserve Board, two secretaries of the Federal Reserve Board, and possibly four or five officers of the New York bank that had that information. You will recall that on the start the newspapers arrived at erroneous information. They thought that the board was trying to put a 6 per cent rate in in the New York bank, instead of what actually happened. In the course of 30 days, I would say that that information was known by at least 150 people within the Federal reserve system, directors or officers or secretaries or others. If I remember correctly it was almost two months after February 15 before the public arrived at the real story.

So that I think I can say with safety that no one had any information that they could use to advantage.

Mr. GOLDSBOROUGH. I see. That is a very fine statement to be able to make, and as far as I am concerned, I believe every word of it. But what I was trying to find out was whether there was anybody outside of the system who could get the information or who did get the information, as this article seemed to imply.

Governor YOUNG. I doubt it. Suppose that they had the information that the New York directors wanted to raise it to 6 per cent and the board would not grant the raise; they would be just where they were before. There was no real information until the Federal Reserve Board approved the rate.

Mr. GOLDSBOROUGH. I do not know about that. I think if an individual knew the New York bank wanted to raise the rate to 6 per cent, and the board would not grant them the permission, he would be in a vastly better position than one who did not know about it at all, because that first individual would at least know the drift of the mind of the bank and the mind of the board, which would be of great value.

Governor YOUNG. Well, the directors of a reserve bank would have every right in the world to issue that kind of statement if they so elected, and the board could not possibly object to it.

Mr. GOLDSBOROUGH. They would have the right to do it?

Governor YOUNG. Obviously so. You can not deny men the right to free speech. Whether it would be advisable to issue such a statement is a debatable question.

Mr. FORT. May I ask one question right there, Mr. Goldsborough?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. FORT. A year or two ago, Governor Young, there was public information as to a dispute between the Chicago board and the Federal Reserve Board, which was thoroughly understood by all the public. There were statements issued on that, were there not, about the raising of the rediscount rate?

Governor YOUNG. That was before I came on the board. I do not think the board issued any statement.

Mr. FORT. The board did not, but the Chicago board did, did it not?

Governor YOUNG. I think individual members of the Chicago board did. I do not think the—

Mr. FORT. I mean, the information was made public at the time that the controversy was on between the Chicago board and the Federal Reserve Board.

Governor YOUNG. Correct.

Mr. WINGO. Is it not true that in February, 1929, there were some individual members of the Federal reserve bank board in New York who were quoted as to their opinion about the situation and the advisability of action one way or the other?

Governor YOUNG. Not in February. I think one member did express himself in May.

Is that correct, Doctor Goldenweiser?

Doctor GOLDENWEISER. That is right; not at the time.

Mr. WINGO. What I had in mind was that they were directly quoted—

Governor YOUNG. In March one of the banks advocated within its monthly bulletin—

Mr. WINGO. What I had in mind was not only in the current number of a bulletin that came out, or a statement that came from some bank—and I get so many of them that I do not recall—but some writer, while he did not quote any specific name—just as in the case of the quotations that used to come from the White House—stated that:

It is known or said upon good authority that the directors of the Federal Reserve Bank of New York think that stringent action should be taken.

I was struck at the time because I had the impression that the general public had, just the reverse of what the situation was.

Governor YOUNG. Was not that 60 days later?

The CHAIRMAN. Will the gentleman yield?

Mr. GOLDSBOROUGH. I think I ought to be allowed to finish my cross-examination.

Mr. WINGO. I beg the gentleman's pardon.

The CHAIRMAN. If you will permit me one question further; apropos of what has just been said, the controversy arose through the disclosure by a director of the Federal Reserve Bank of New York that he was in favor of raising the discount rate.

Governor YOUNG. I do not know that.

The CHAIRMAN. The press indicated that Mr. Charles E. Mitchell, president and chairman of the board of the National City Bank, was that member of the Federal Reserve Board, of New York.

In view of what has happened here in the last few minutes, I want to ask if there is not grave danger, when action like that is known to a director of the Federal reserve bank—particularly when that director is the head of an institution which is affiliated with institutions that are interested in stock market operations—of disclosing information that may be used for speculative purposes?

Governor YOUNG. I do not think so, and I would regret to think that any director or any officer of any Federal reserve bank would use information of that kind to his advantage.

The CHAIRMAN. I was not suggesting that, but the crux of the situation is that here is a man, a director of the Federal reserve bank with that knowledge, who happens also to be the managing head of a national bank and the head also of affiliated institutions engaged in stock market operations. From the very make-up of the situation, it would seem to me that any man in that favored position is bound to use that information, whether he does so willfully or not. The fact that he possesses that information will bring about decisions which will necessarily affect the transactions in the market.

Governor YOUNG. Mr. Congressman, he does not get it any quicker than the public gets it. What happens is that the New York directors meet about 2 or 2.30, and they usually take care of the routine business first. The rate discussion is then brought up during the meeting, and some one makes the motion to establish a higher rate, or to fix a higher rate. There is discussion and maybe there is a unanimous vote and maybe a divided vote, and it carries or it does not. The Federal Reserve Board holds itself in readiness at all times either to approve or disapprove rates. That information is phoned to the Federal Reserve Board and followed up by a wire, and the board meets immediately and discusses the situation and approves it or disapproves it by a unanimous vote or a majority vote. That action perhaps is taken not before 2.30, and it is released simultaneously by the Federal Reserve Bank of New York and the Federal Reserve Board at 3 o'clock. Those directors stay in conference until after that is released and the public has that information just as quickly as that director has as far as any use could be made of the information.

The CHAIRMAN. This particular occasion was a matter of controversy between the Federal Reserve Bank of New York and the Federal Reserve Board, was it not?

Governor YOUNG. That is correct.

The CHAIRMAN. Mr. Goldsborough, I do not wish to take any more of your time.

Mr. GOLDSBOROUGH. I have a question or two.

Mr. Young, on last Wednesday I directed several inquiries to your view as to whether when banking groups become sufficiently powerful they do not become measurably the Government itself—in other words, whether the officials representing the Government are able to act independently of the pressure which either directly or indirectly comes to them from these powerful groups.

I am going to illustrate what I have in mind by a situation which is now developing along another line. The Standard Oil Co. of New York and the Vacuum Oil Co. are in process of effecting a merger.

The directors of each company have approved it, but it has not yet been submitted to the stockholders of the two companies. Those two companies were constituent members of the Standard Oil Co. of New Jersey, which was dissolved in 1909 by a decree by the Supreme Court of the United States holding the groups a combination in restraint of trade.

As I said before, these companies desire to merge, and the Department of Justice has filed a bill in equity to restrain the stockholders of the constituent companies from voting the merger. In other words, a bill in equity has been filed by the Government to prevent the violation of a penal statute.

Now, any lawyer will tell you that can not be done, and the general understanding among lawyers who have the situation in mind is this, that these two companies, when they file their answers to this bill in equity, will not plead to the jurisdiction; in other words, that particular question will not be raised and they will be able to get a declaratory decree of the court before anything is actually consummated. Stated in another way, it appears to be an amicable suit. It is obvious that the ordinary individual or the ordinary business could not make any such arrangement as that with the Department of Justice—and I am not criticising the Department of Justice; I am only saying that when aggregations of individuals or of capital become strong enough, inevitably to a greater or less extent they control those who should control them.

Now, then, here we have a situation where almost all of the banking resources of this country are now centered in the metropolitan areas. If these metropolitan banks extend their influence out into the rural districts, they will control the economic situation, which in turn, will control the social situation and the political situation, and in turn will create a condition where the cities will control the policy of the Government. In the cities, of course—for we are a new country—they have an unassimilated population to a large extent, and politics are not handled and decisions as to governmental matters are not made as they are in the country I think it has been said that the so-called graft conditions which exist in American cities do not exist anywhere else in the civilized world, and it is attributed to the control, the easy control by politicians, of this vast horde of unassimilated foreign population.

Now, do you not think that one of the things we ought very carefully to consider before we assist in the extension of branch banking into the rural districts is the question whether or not American life ought to be turned over to the great centers of population?

Governor YOUNG. If there is such a possibility, I think you ought to consider it very carefully.

Mr. GOLDSBOROUGH. That is all.

Governor YOUNG. Mr. Chairman, Congressman Goldsborough made an inquiry of me earlier, as to whether I knew any place where unit banking existed where there was a demand for branch banking or group banking. At the moment I could not recall or did not remember. I now recall that one of my friends in the Far West that went into one of the group set-ups in the Northwest wrote me, after he had taken the action, and asked me if he did not act wisely. So I assume that he arrived at his own conclusion voluntarily.

That is the only case that I recall at the moment.

Mr. FORT. May I interject one question in regard to a matter, Governor Young, that you were discussing some time ago under the questioning of Mr. Goldsborough and Mr. Wingo. I did not want to interrupt Mr. Goldsborough at the time. It relates to the matter of the value to an institution with which a Federal reserve bank director might be connected of the knowledge of the action taken by the Federal reserve bank, and you said you felt, and I agree with you, that no officer or director would utilize that deliberately for the advantage of his own institution; but is it not a fact that so long as the contemplated action of the bank is not known—in other words, so long as the public has no knowledge of whether or not the bank is considering officially a change in the discount rate—the knowledge of that status would be of very great value and inevitably used, as Mr. McFadden has said, in making decisions by any director of that Federal reserve bank who also was the director of a bank which was dealing in stocks, either for its own account or for the account of an affiliate?

Governor YOUNG. Let us take the outstanding case, from February 15 or 14, whichever it was, clear through until May or June. If that director during that period had attempted to take advantage of the contemplated raise in the rate, he would have been out of luck for three months at least, because of the position that the board took.

Mr. FORT. But the general public did not even know in any definite way that the board was even considering the change in the rate, did it? It has only guesswork to go by.

Governor YOUNG. Nothing but guesswork.

Mr. FORT. The question I am coming to—and I have not any preconceived idea on it—is whether or not the public is entitled to the information generally at the conclusion of a board meeting as to whether the discount rate is even up for discussion.

Governor YOUNG. Possibly.

Mr. FORT. And as to the size of the vote by which the discussion is resolved.

Governor YOUNG. Well, I have a feeling myself—a personal feeling—that the less those things are discussed in the newspapers, the better, but I may be wrong. If the directors of the New York bank care to make a public statement as to what they have done, I could not object to that, but during the year 1929, and I will ask Doctor Goldenweiser and Mr. Smead or Mr. Wyatt to correct me if I am wrong, the board had 49 requests for increases in rates, 24 of which were approved and 25 disapproved. I think those figures are accurate; if they are not I will correct them.

Now, that means that you would be in the newspapers practically all the time, and with additional controversy all the time.

Mr. FORT. Of course, stock markets thrive on uncertainty and not on certainty. That I realize is true.

Governor YOUNG. Maybe the uncertainty between February and May had an effect on the market.

Mr. FORT. I am not sure it did not, but my thought in this connection—and the matter I am trying to direct your thought to—is along the line that I questioned you when I had you under examination, namely, whether it is proper for the officer of an institution which itself deals in stocks to be also a director of the Federal reserve bank

that fixes the rediscount rate which we all know vitally affects the stock market.

Governor YOUNG. I will have to answer that, Mr. Congressman, by saying that in my entire association with the Federal reserve system I have never seen a director take advantage of that, or never had any intimation he did in any way, shape, or manner. That would mean that you would have to get directors that were divorced from the stock market entirely, to follow your thought out.

Mr. FORT. Not necessarily. The distinction is this, that if either for the account of the bank or for a security affiliate the dominating officer of the bank is accustomed to dealing in securities for its account in large volume—

Mr. WINGO. Pardon me, but you used the word "bank." Do you mean the Federal reserve bank or a member bank?

Mr. FORT. Member bank.

Mr. WINGO. You mean to say, then, that the director of the member bank is also a director of the Federal reserve bank?

Mr. FORT. He might very well be.

Mr. WINGO. I just wanted to follow you.

Mr. FORT (continuing). Dealing largely in securities for the account of his own institution, it seems to me, without any dishonor or discredit, that he would be gravely deficient in the performance of his duties as an officer of his own institution if he did not have his judgment controlled as to the bank's further operations by his knowledge of the judgment of his Federal reserve bank codirectors as to a forthcoming increase or decrease in the rediscount rate.

Governor YOUNG. Let us follow that right along in actual practice. I have described the customary method of fixing and approving the discount rate. Obviously no director can take advantage of that situation.

Mr. FORT. Absolutely; I agree with you.

Governor YOUNG. So we will eliminate that. Then we come to a controversy such as existed between the board and the New York bank from February until May. That director had that information every day; he had it every week, but he could not use it; it was of no benefit to him at all until it had the approval of the Federal Reserve Board.

Is not that reasonable conclusion to arrive at?

Mr. FORT. It might be that he could not use it, Governor Young, with the same value that he could use knowledge of a definite happening, but, knowing the condition that existed, that his bank was keeping up the pressure on the Federal Reserve Board to produce action in accordance with its views, he certainly had a balance of knowledge that the rest of the country did not have—he knew that there was at least more likelihood of an increase than a decrease.

Governor YOUNG. But he did not get it.

Mr. FORT. Not immediately; he got it eventually.

Governor YOUNG. I will go a little further with that. I think it was in May that they ceased making the recommendation to the Federal Reserve Board for an increase in rate, and the discount rate raise in August really originated with a conference of governors that was held in Washington, so I do not see, Mr. Congressman, how they could use that information to advantage. There might be a possibility

of using the information that they could get in reference to open-market operations, but I do not think so.

Mr. FORT. How about the reverse of the situation, where the Federal Reserve Board desired the local Federal reserve bank to raise the rate, so that he was sure of its approval?

Governor YOUNG. Well, the only time that the Federal Reserve Board initiated a rate, it did not happen that way.

Mr. FORT. But the member of the Federal reserve bank or board of the district, having that knowledge and knowing the attitude of his own board, would have a distinct advantage over the rest of us, would he not, which he might or might not use?

Governor YOUNG. I do not think so.

Mr. WINGO. Your theory is that he would necessarily use it in casting his vote as a member of the directorate of his own bank, that it consciously would affect him?

Mr. FORT. Well, I think that in the larger banks, where they have the power, they do not wait for directors' meetings to buy stocks.

Governor YOUNG. Let us follow that along. Let us assume that the Federal Reserve Board should arrive at a conclusion that there should be a rate raise in some bank——

Mr. FORT. Or a reduction.

Governor YOUNG. Or a reduction, one or the other. Well, the law gives the board the power to fix the rate for the Federal reserve bank, and that has only been done in one instance. The procedure that would be followed would probably be this, that the board, viewing the entire credit structure of the United States, would believe that it was advisable that there should be a rate raise or a rate reduction. They would pass that information on to the officers of the reserve bank, not to the directors, because we are not in close contact with them. At a meeting of the directors at 2 o'clock they would be acquainted with the views of the board, and the directors might agree and they might disagree. If they disagreed, they would not initiate the rate. If they did agree, they would initiate the rate, and it would be immediately approved by the board and a director would be in the same position as if the bank initiated the rate itself and the board approved it.

Mr. FORT. Except that they might agree to initiate it a week later or two weeks later.

Governor YOUNG. That might be possible; they might say it is too early.

The CHAIRMAN. In connection with the change of rate that you spoke of a few moments ago, what would be the process in a change in rate supported, for example, by the bank in Philadelphia? Do you consult with the other banks, the other 11 banks?

Governor YOUNG. No.

The CHAIRMAN. They are not consulted?

Governor YOUNG. No.

The CHAIRMAN. They are not made cognizant of any change in the rate of the Philadelphia bank until after that has been decided upon?

Governor YOUNG. Under some conditions they would be and under others they would not.

The CHAIRMAN. Under what conditions are the directors and officers of all of the 12 banks notified or consulted before a change in rate is made effective?

Governor YOUNG. Under no conditions, but this has happened: Obviously a rate raise in one district which would be above the rate in other districts, has an effect upon the entire United States, and I mean by that that if New York were on a 5 per cent rate and elected to raise it to 6 per cent, obviously the board in approving or disapproving would take into consideration the effect, immediate or eventual, that that might have on the other districts of the United States in determining whether we would approve or disapprove of the rate. Now, it would be possible under those circumstances that I, as the head of the board, might consult with the officers at Cleveland or with the officers at Chicago, Philadelphia, or elsewhere, to find out what, in their opinion, the effect of that rate would have in their district and whether there was strong opposition to it or whether they had no feeling about it at all. That would not, however, go to the directors of these other banks, because they only meet every two weeks or every 30 days, and the board has to act quickly.

The CHAIRMAN. Of course, this problem is a very sensitive one, and I would like to state for the record that in my questions a few moments ago wherein I mentioned Mr. Mitchell of the National City Bank of New York in connection with the rate change and the possible benefit he might derive from his associations, I was not accusing Mr. Mitchell of having used that information in any manner; I was merely using that to illustrate the possibilities, or the sensitiveness connected with that kind of a situation.

Mr. FORT. I have the same feeling about all of it; I think the Federal reserve system has been run with a very high sense of honor.

The CHAIRMAN. It seems to me that there is a grave possibility of information pertaining to possible changes in the policy of the Federal reserve getting out to those who are closely associated with officers and directors of the Federal reserve banks. As an illustration of what I mean, take, for instance, a class C director of a Federal reserve bank who attends a directors' meeting where a matter of change of policy is up for consideration. He has a business associate who knows from his partner's action one being a director of the Federal reserve bank and the other the operating head of the business, practically what action took place in that meeting without the director telling him, if it happens to be a class of business that is affected by a change in rate or a change of policy. It seems to me that it is such a sensitive thing that in many instances information like that is bound to get out.

By way of illustration, I want to cite an incident that occurred on the 1st of last October. I was in New York, on lower Broadway, when I met an officer or director of one of the Federal reserve banks, who shook hands with me, and I said, "What are you doing in New York?"

He said, "I am just going over to my brokers to sell everything I have got."

He passed on, and I went my way. My natural thought was, What is going to happen? What is this all about? Here is an officer of the Federal reserve bank—

Governor YOUNG. An officer?

The CHAIRMAN. He was a director of the bank, and I thought that he must have advance information on some movement. I have thought of that many times since.

Governor YOUNG. Well, let us follow that a little further—

The CHAIRMAN. I bring that up just to get your reaction on it, whether or not there is a possibility of anything like that happening.

Governor YOUNG. I will be glad to give it to you. In August we took action in reference to the discount rate and the bill rate, which was known to the public as quickly as it was known to any director or officer of any reserve bank—or, inside of five minutes.

The CHAIRMAN. Does the public get the effect of that action as quickly as a man immediately engaged in the activities of the system?

Governor YOUNG. It has the same information.

The CHAIRMAN. But the capacity there to analyze it and note its effect is not as keen as with the one who is very close to the Federal reserve operations.

Governor YOUNG. In September we proceeded to buy bills; that was public information. In October we were asked for authority to buy Government bonds, if necessary, to relieve the situation. Now, that was the information that that man had, which was an easing policy so far as the credit situation was concerned; so that in October he did not have any information that the public did not have, and he must have been prompted to sell securities for some reason other than Federal reserve policy or Federal reserve action.

Mr. DUNBAR. I would like to ask the chairman and Mr. Fort a question.

You have spoken about the possibility of contemplated action being disseminated to the public and thereby creating a speculative market. It is pretty hard to keep it a secret; you can not do it; people contemplate and have in their minds certain procedure and, somehow or other, the newspaper men get their information mostly out of the air, but they know what is going to occur before the participants themselves come to a conclusion.

What have you to suggest that would prevent this impression going forth which has influenced speculation and disturbed the business conditions of the country which you in your questions to Governor Young have somewhat deplored?

Mr. FORT. Are you asking me?

Mr. DUNBAR. Both of you.

Mr. FORT. I have no commitments in my mind other than the feeling, which I think I have disclosed, that the whole practice of the purchase and sale of stocks by banks for their own account or affiliates is bad banking and ought to be stopped.

Mr. DUNBAR. How would you stop it?

Mr. FORT. By forbidding banks to indulge in the purchase or sale of stocks.

Mr. DUNBAR. That is right.

Mr. FORT. That is another question, however.

Mr. DUNBAR. That is the one I was talking about.

Mr. FORT. What I mean is that there ought to be some law that would be definitely applicable to banks on that.

The CHAIRMAN. The point I was raising was that there was a sensitiveness here that probably could not be reached by law. It comes back to the element of human nature, and I do not know but that it goes even beyond that, where a man, by not saying anything, really answers a question, because the understanding is so close between those who are associated in the actual operation of the system and those who are either engaged in market operations or in

business that they decide the course as to a change in policy as affecting their own particular situations or their opportunity to make money. That is something that no law can cover. It is a situation that an officer of an institution, either as a director or an active officer, be he ever so honest, might, by evading an answer to a direct question, give information of material value to one engaged in speculative operations.

Mr. DUNBAR. I agree with you as to that; that is the difficulty that the directors of the Federal reserve system labor under, and it is one that they would like to solve if possible, and yet at the same time it is a condition that more or less reflects unjustly upon them.

Mr. WINGO. Mr. Chairman—

The CHAIRMAN. I might say here for the purpose of this record that this present discussion is proceeding as it is because of the fact that Judge Brand does not happen to be present, but he will proceed to-morrow, and, having this time available, a latitude is being given to the members of the committee to ask questions of Governor Young out of the regular order.

Mr. WINGO. A while ago, Governor, you were talking about rates, and you suggested that the board had the power to fix rates. I believe that has been decided by the present board and I also believe that you have had one or two Attorney Generals tell you that you had the power to fix rates.

I do not know that it is worth while, and may be it is just a personal satisfaction, but I would like to reiterate what I have said every time that question was raised, that that was not the original contemplation. One of the bitter controversies as far as this House committee was concerned was where the power to fix rates should be lodged, and originally it was suggested that the board should have that power. That very controversy was involved in the question which concerned the selection of directors, and the directors we divided into three classes, letting the member banks be represented, letting business be represented and letting the board be represented. Those who had raised the original controversy objected to a central board having the power to dominate the rate by initiatory declarations, and they were led to believe that all on earth that this final language which was used meant was to approve or review or determine, I believe the language is "subject to review and determination."

That word "determination," they were led to believe meant the final determination; in other words, that the rate should not become effective until reviewed and determined finally by the board, and, of course, it may be another one of those instances where a few knew what they were driving at and used language to conceal what they were doing to get by the opposition of an unquestioned majority, both in the committee and in the House. It is also true that some gentlemen who were connected with the writing of the act have right-about-faced on that, for they have given two opinions in writing, and one was that it was intended for them to have the power and the other that they should not have it; and, while my judgment or my recollection may be confused on some things, on a major controversy like that I do not think I can be confused, and only recently did I refer to my notes as to the controversy in which I engaged in reference to that very question, and I specifically asked the question not on the floor but of some gentleman who had some-

thing to do with it if that language would be interpreted as centralizing the power to fix rates here in the board at Washington, and I was assured that it would not, that they simply wanted to have the checks and balances, and the review and the determination was intended to give the supervisory board some control and veto power and not just unlimited power to fix the rate.

Governor YOUNG. It clearly gives the board the veto power.

Mr. WINGO. No question about it. The argument used was this, in connection with the original proposal for a uniform rate, that there are different types of business in different parts of the country, and seasonal demands are different, and that therefore a rate which might be beneficial for a New York bank would be just the opposite for Minneapolis or San Francisco or Kansas City. Then the argument to leave the final determination with the board, the veto power, was urged by those replying to that argument, that that was true, but that if you leave the power without any review by the Federal Reserve Board in any one of the 12 banks, that then that one bank might be arbitrary in the use of its power and might put in effect a rate which by its reaction would affect the other 11 banks, and therefore the board sitting here at Washington should have the final veto power, so as to check a bank that used its power unwisely or arbitrarily so far as the whole country was concerned or abused its power by putting in effect a rate which it realized would have a punitive effect on some other bank that it wanted to affect.

That is the argument that was made pro and con here at the table and in conferences, and the real intention was that never should the board initiate a rate, that the board should take no action at all until the bank submitted a proposed change, and then the board could either approve it, or else it could veto it and the bank then, if it wanted to take any further action, would have to make some other suggestion.

That was the original thought. Maybe it was wrong, and maybe the present determination is wise—I do not undertake to discuss that, but I just wanted to put that in the record in view of some contentions that have been made.

Governor YOUNG. It has been my observation, Mr. Congressman, in the actual operation of the system, that the initiation of a rate in one district does have an effect on other districts, not to the extent, however, of requiring a uniform rate throughout the system.

Mr. WINGO. Well, this is true, is it not, that at a certain season of the year there is a larger demand for credit, say, in Kansas City, and under normal conditions, especially before the war, at the very time you had the heaviest load, at the peak of your credit load in Kansas City, nine times out of ten, for a period of 10 years prior to 1913, that was the dull period in New York. In other words, credit was more plentiful then and as a rule New York sent out its surplus credit into the Kansas City territory and met the demands out there for surplus credit.

Now, if there is a heavy demand for credit in Kansas City or in some of the States where they recognize under the usury laws a 10 per cent rate in advance that the member banks may charge their borrowers, and the wheat farmers and the country bankers are carrying those accounts, on account of the scarcity of cash, say at a rate of 8 per cent, the very necessities of the case demand the highest seasonable rate in that territory, and if at the particular moment the

New York rate should be put abnormally low, it would have one effect and, on the other hand, if the New York rate were put very high, it would have just the opposite effect. If the New York rate was the same that day that the rate is at Kansas City, it would make the burden in Kansas City a little bit heavier, would it not? In other words, a 6 per cent rate in New York is higher for New York than a 6 per cent rate in Kansas City is for that territory, is it not?

Governor YOUNG. I would say yes.

Mr. WINGO. You catch the point? In other words, 6 per cent is a high rate in New York City, is it not?

Governor YOUNG. Very high.

Mr. WINGO. But a 6 per cent rate in the Kansas City territory is not an abnormally high rate?

Governor YOUNG. It might be a very effective rate in that district.

Mr. WINGO. I am talking about member banks. I do not know of a bank in my district that charges the general run of people—

Governor YOUNG. You are talking about member banks?

Mr. WINGO. Yes; about the general credit rate. In other words, I do not know of a single member bank in my district that is making a 6 per cent rate to all of its customers. Its preferred customers get it, but I can not get a 6 per cent rate; I have to pay 10 per cent in advance at my bank, even now with this plentiful money and with this wonderful easy credit.

The point I am getting at is the necessity for having a different rate sometimes in different Federal reserve districts.

Governor YOUNG. Oh, yes.

Mr. WINGO. That was recognized in the beginning, and for that reason it was first urged that you ought to have 12 different banks and that each bank ought to fix the rate to meet the needs of each particular district with which they were more familiar, but, on account of the general effect that might have on any other single bank, it was thought that the Federal Reserve Board ought to have the veto power so that if some bank showed a reckless disregard of the whole country, the board could preserve and protect the general public interest in that way.

Governor YOUNG. I think that has been followed out in the operation of the system. Uniform rates have not been general. We have rates now ranging from $3\frac{1}{2}$ to $4\frac{1}{2}$ per cent in the system.

Mr. WINGO. But, within itself, a $3\frac{1}{2}$ per cent rate in one district is relatively lower than a $3\frac{1}{2}$ per cent rate in another district at the same time, is it not?

Governor YOUNG. It might be.

Mr. WINGO. In other words, as to the effect—and that is what you go by—a $3\frac{1}{2}$ per cent rate in Kansas City would be entirely different from a $3\frac{1}{2}$ per cent rate in New York City, would it not?

Or, let us take a $4\frac{1}{2}$ per cent rate; a $4\frac{1}{2}$ per cent rate in New York City would have a very different effect than a $4\frac{1}{2}$ per cent rate in Kansas City, would it not?

Governor YOUNG. It would depend upon the conditions and circumstances.

Mr. WINGO. In other words, there is more than just a 1 per cent difference in the relative demands and actual price of credit as fixed by supply and demand in Kansas City on the one hand and New York on the other?

Governor YOUNG. There might be.

Mr. WINGO. As a general rule, measured by the actual transaction, it runs between 2 per cent and 3 per cent, does it not, so far as the member banks are concerned? In other words, the current level of interest rates in the Kansas City district runs from 2 to 3 per cent above the current interest rate in the New York district. That was true the last time I checked up on it and got expert advice, although it may not be true now. That was a few years ago.

The CHAIRMAN. It is now 1 o'clock, but before we adjourn I want to place into the record a letter from the Comptroller of the Currency under date of March 27, 1930, inclosing certain information previously asked for in regard to a comparison of bank assets in the United States between July, 1914, and July, 1929, showing the increase in banking assets in a number of the larger cities in the United States.

Mr. WINGO. Does that statement show the assets with reference to what you might call the two major groups, the independent unit banking group and then the others?

The CHAIRMAN. No; it does not. It shows the entire banking assets in the United States for July, 1914, and July, 1929, showing the per cent of increase to be 180 per cent.

(The letter and statement referred to are reproduced below.)

COMPTROLLER OF THE CURRENCY,
Washington, March 27, 1930.

Hon. LOUIS T. McFADDEN,
Chairman Committee on Banking and Currency,
House of Representatives, Washington, D. C.

MY DEAR MR. CHAIRMAN: In compliance with the request of the Hon. James W. Dunbar upon the occasion of my appearance before your committee on March 14, I am inclosing a table showing a comparison of total loans and investments of all banks in each of the 12 Federal reserve bank cities and 4 other selected cities as of July, 1914, and July, 1929, together with the percentage of increase during that period.

This is submitted to you for insertion on page 256, Volume I, part 3, of the hearings before the Committee on Banking and Currency, House of Representatives, Seventy-first Congress, second session, under H. Res. 141.

Yours very truly,

J. W. POLE, *Comptroller*.

MARCH 25, 1930.

Subject: Banking resources in New York and other cities, 1914-1929.

In order to measure the relative increase in banking resources between 1914 and 1929 in each of the 12 Federal reserve bank cities and in 4 other selected cities, also in the United States as a whole, as well as in the United States exclusive of New York City, the following table has been prepared comparing total loans and investments of all banks in each of such cities in the two years. The results, while believed to be substantially correct, can not be said to be exact, for official figures for State banks are often not available separately for individual cities (only State totals often being published). The figures given were taken from the Rand-McNally bankers' directories for July, 1914, and July, 1929, except in the case of New York City. For that city official figures as published by the Comptroller of the Currency and by the State banking department were used, due to the fact that it was not practicable to eliminate from the bankers' directory figures the assets of the foreign branches of New York City banks.

City	Total loans and investments ¹		Increase, July, 1914, to July, 1929
	July, 1914	July, 1929	
United States ²	\$20,876,000,000	\$58,533,000,000	<i>Per cent</i> 180
United States, excluding New York City.....	16,898,000,000	45,928,000,000	172
New York.....	3,978,000,000	12,605,000,000	217
Chicago.....	873,000,000	2,708,000,000	210
Boston.....	744,000,000	1,850,000,000	149
Philadelphia.....	775,000,000	2,030,000,000	162
Cleveland.....	297,000,000	966,000,000	225
Richmond.....	59,000,000	135,000,000	129
Atlanta.....	41,000,000	137,000,000	234
St. Louis.....	301,000,000	594,000,000	97
Minneapolis.....	109,000,000	310,000,000	184
Kansas City.....	106,000,000	242,000,000	128
Dallas.....	30,000,000	161,000,000	437
San Francisco.....	394,000,000	1,895,000,000	(³)
Baltimore.....	242,000,000	591,000,000	144
Pittsburgh.....	459,000,000	1,085,000,000	121
Detroit.....	178,000,000	1,008,000,000	466
New Orleans.....	85,000,000	242,000,000	185

¹ Exclusive of joint-stock land banks. Federal Intermediate credit banks, and Morris-plan banks; figures for New York City also exclude private banks.

² From annual reports of the Comptroller of the Currency, exclusive of Alaska and insular possessions.

³ Available figures for 1914 and 1929 are not comparable, due to the fact that the published figures for the city include a large number of out-of-town branches.

Mr. WINGO. Right on that point, if I may, I would like to ask the governor one question before we go.

In the last three years, measuring banking capital and resources by loans and investments, while there has been a large increase, yet relatively the larger increase has been in the resources of other than the independent unit banking system. There has been a very rapid trend toward group, chain, and branch banking in the last few years, has there not?

Governor YOUNG. That is correct.

Mr. WINGO. My recollection of that table that you had here the other day of member banks shows that the independent unit banking system had about thirteen billions in loans and investments out of thirty-five billions. I checked it up the other day, and that is one thing that I intended to ask the governor about, but I failed to bring over my notes.

Governor YOUNG. I think that was some information that was presented by the comptroller. I have a copy of it.

Mr. WINGO. I questioned you some about it.

Governor YOUNG. But we put in some other information that included all of the banks of the United States, and the sum and substance of it was—

Mr. WINGO. Let me have that table that is before you; I think that is it. It is Table 4, "Number and loans and investments of all member banks in each State, and of member banks that operate branches or belong to groups or chains, by States, December 31, 1929," and is marked "St. 6526."

I notice that for the whole United States, the loans and investments amount to \$35,934,000,000; for the independent unit member banks, \$13,275,000,000.

The point I want to get at is this, that that trend has been very noticeable in the last three years, and it leads to this conclusion—and whether it be wise or unwise, I am not discussing now—that,

measuring the resources of banks by the item of loans and investments, the greater part of the resources are in the banks other than the independent unit banks.

Governor YOUNG. That is correct.

Mr. WINGO. The natural tendency seems to be that way, and I am not discussing the merits of whether that is wise or unwise. But we have reached that point where, from a practical operating standpoint, the banking business of the country has already gone into either chain, group, or branch banking, or the dominating volume of it has, has it not?

Governor YOUNG. Yes, sir.

Mr. WINGO. So under the present law your independent unit banking system is being forced out. I am not talking about whether it is wise or not, and I am not using the word "forced" in an offensive sense, but, just on account of the competition and the natural choice of those engaged in banking, the independent unit bank seems to be passing to a large extent out of the picture.

Governor YOUNG. I would not be prepared to say that it is forced; I am rather inclined to think that it is being done voluntarily in the greater number of cases.

Mr. WINGO. I am not, as I have previously stated, using the word "force" in an offensive sense, but it is that force that flows from the natural exercise of judgment of those who choose between the different types of banking. They voluntarily are going more and more into group, chain, and branch banking and less and less maintaining the independent banking system.

Governor YOUNG. The figures show that.

Mr. WINGO. In other words, I am not talking about any improper methods being used; that is not the point; but I am just talking about the natural trend of those who are responsible for the forms of banking in the United States represented by their actual action in that type of banking in which they engage, and it shows more and more that they are going into group, chain, or branch banking, and less and less to independent unit banking.

Governor YOUNG. Modified to this extent: In volume, yes; in number, no.

Mr. WINGO. That is very striking. That is another point I wanted to call attention to, and then I will close. The independent unit member banks of the Federal reserve system number 7,321, and only have resources, measured by loans and investments, of \$13,275,000,000. The remaining banks, out of a total number of 8,522, have total resources, measured by loans and investments, of \$22,659,000,000.

So that the only predominance of the independent unit banks to-day is in mere numbers of the banks. There are 7,321 out of 8,522, and a little more than a thousand other banks, other than the independent unit banks, have the remainder of the \$35,934,000,000 of resources, as against the \$13,275,000,000 that the larger number of small independent unit banks have.

Governor YOUNG. Correct.

Mr. WINGO. Whatever is responsible for that we are not discussing; we are just talking about the natural trend. There is nothing strange about it, measured by the experience of other countries; it is the same

story of the way they went in England, Canada, France, and Germany—it is a natural trend in all countries, is it not?

Governor YOUNG. Every country that I recall, although I do not remember that the independent bank ever developed in Canada. I do not think it did.

Mr. WINGO. Well, they had, when we first commenced this branch-banking controversy, over 30 banking systems there.

Governor YOUNG. They were all branch systems.

Mr. WINGO. Yet they were all independent systems. Now they have gotten down to where they have 10 actual banking systems, and 3 of them dominate all 10. I do not mean that they have a majority control, but it is generally admitted that the "big three" now dominate in Canada.

I have all of those statistics on these other countries, and I will put them in the record, but at this point, in connection with a suggestion that he made and without discussing the merits of the respective systems, I wanted to show what the natural trend is in this country.

That is all.

The CHAIRMAN. The meeting is adjourned.

(Thereupon, at 1.05 o'clock p. m., an adjournment was taken until 10.30 o'clock Wednesday morning, April 2, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 2, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

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

The CHAIRMAN. The committee will come to order.

Governor Young, have you something further to submit?

STATEMENT OF GOV. ROY A. YOUNG—Resumed

Governor YOUNG. Yesterday it was requested that I secure and put into the record a statement of the Federal advisory council as of date February 15.

The CHAIRMAN. That will go into the record at this point.

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

[Statement for the press. For immediate release Friday, February 15, 3 p. m.]

The Federal advisory council at a preliminary meeting yesterday made the following minute, which was delivered to the Federal Reserve Board at the regular quarterly meeting of the council and the board this morning:

"The Federal advisory council approves the action of the Federal Reserve Board in instructing the Federal reserve banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal advisory council suggests that all the member banks in each district be asked directly by the Federal reserve bank of the district to cooperate in order to attain the end desired. The council believes beneficial results can be attained in this manner."

The CHAIRMAN. Have you anything further, Governor?

Governor YOUNG. The other information will take some time, Mr. Chairman.

The CHAIRMAN. Now, Mr. Busby, you are to proceed next.

Mr. BUSBY. Some days ago when the Comptroller of the Currency, Mr. Pole, was before the committee, the main argument, as I understood it, urged by him for branch banking was that many of the unit banks had failed during the last 10 years. I called his attention to the fact that four States along the Atlantic coast—North Carolina, South Carolina, Georgia, and Florida—with a population of 7½ per cent of that of the whole United States, had had 729 bank failures, and that nine States in the agricultural northwest—Minnesota, Iowa, Missouri, Oklahoma, North Dakota, South Dakota, Nebraska, Kansas, and Montana—with 14½ per cent of the country's population, had had 2,768 bank failures, while 78 per cent of the population had 2,157 bank failures or 28.4 per cent of failures. So, that gave us 22 per cent of the population of the country having 71.6 per cent of the bank failures out of a total of 4,925 banks which failed from 1920 to 1929.

I asked him the question whether chain, group, or branch banks located in that type of territory—that is, agricultural territory—would not be subject to the same pressure in times of deflation, especially where the loans were secured almost wholly by agricultural products, stock, and other products of the farm. What is your opinion regarding that situation with reference to these bank failures, about which you know?

Governor YOUNG. I think that the pressure would have been just as great for additional credit. I think under a branch set-up that probably there would have been greater discrimination in the way the money was lent.

Now, I want to refer to something I referred to the other day, something that is very seldom mentioned in the causes for bank failures, and that is the tremendous loss of deposits in many of those banks. I could name a great number of them that did lose during that period at least 50 per cent of their deposits.

Mr. BUSBY. In what way did they lose them?

Governor YOUNG. Lack of confidence on the part of the public; they withdrew their deposits, so that the country banker was not able to liquidate rapidly enough to pay those deposits without getting assistance from a correspondent or from the Federal reserve bank, and even with the assistance that he got from the Federal reserve bank there was great hesitancy upon his part in acquiring any new loans, and I think, coming from that territory, as you have and I have, that we both know that many of these agricultural problems could have been worked out and were actually worked out by the banks that were in position to lend additional money to bridge men over and to take care of them.

The CHAIRMAN. Will you yield there, Mr. Busby?

Mr. BUSBY. Yes.

The CHAIRMAN. What caused the lack of confidence, Governor Young, that you referred to?

Governor YOUNG. One bank fails and that always creates a lack of confidence in the remaining banks, and, in the Northwest where they failed in such great number, there was an inclination on the part of the public to withdraw the funds, hoard them, or move them into the larger centers. Now, under a branch system, where these difficulties frequently are local and not general—in other words, where you may have a drought in one section but not in another, or you may have, difficulty with the sheep industry in one place but the cattle in another place you are not having difficulty with—many of those situations can be worked out if time is granted and if additional funds are lent to the proper kind of people. I think that a branch system would enable them to do that where in many, many cases the unit banker was not in position to do it.

Mr. BUSBY. Do you not think that the biggest argument for a branch system is the fact that where there are several banks in the system a run on one of the banks would not be near so likely, and, if it were made, the other banks the system could come to its rescue in a sufficient way to reestablish confidence and stop the run?

Governor YOUNG. I will go a little further than that and say that they would have to go to its assistance, because the failure of any branch or the failure of any part of the chain naturally would tear down the whole branch system or the whole chain system, and they could not let one section of it fail.

Mr. BUSBY. Of course, if the distress became so general as to reach nearly every bank, as it did in the central northwest when they had 467 failures in Iowa during a 9-year period, that would affect the parent bank as well as the branches if they were all located in that territory, would it not?

Governor YOUNG. It would, Mr. Congressman, but the probabilities are that if we had a branch system established, say 20 years ago within those little trade areas, that they never would have accumulated many of the loans that they did accumulate. That is why many of those unit bankers in that territory have been able to stand up, because they did resort to diversification.

Mr. BUSBY. You stated the other day that undoubtedly there was great depreciation in the collateral used as a basis for loans in that section and all sections of the country, or words to that effect, I believe?

Governor YOUNG. Yes, sir.

Mr. BUSBY. You stated in so many words that undoubtedly the Federal reserve system would have taken in, after having made due examination of these banks and their collateral, as many as 2,500 of the banks which later failed had they applied in 1917 or 1918 for membership in the Federal reserve system.

Governor YOUNG. I made this statement, that there were 3,000 nonmember banks in the ninth Federal reserve district in 1917, and that if they had applied for membership in the Federal reserve system we probably would have accepted at least 2,500 on the information that we had in reference to those banks at that time, or, I will put it this way, on the information that we thought we had.

Mr. BUSBY. This is about what I wrote down at the time you were here before; that from what you, the Federal Reserve Board, knew about the banks in the agricultural section, and your opinion of their solvency, you were sure that 2,500 of those which had failed during the last 10 years would have been admitted as members of the Federal reserve system.

Governor YOUNG. Well, if I stated it that way, I misstated it, Mr. Congressman. I would like to refer to the record.

Mr. BUSBY. I am not positive that these are your exact words, but I think I was taking down about what you said as nearly as I could follow you while you were stating it.

Governor YOUNG. I will attempt to make that clear.

Mr. BUSBY. I just called your attention to it for that reason.

The CHAIRMAN. I would suggest that in order to clear this up, the exact statement of just what Governor Young did say on this particular subject be placed in the record.

Mr. BUSBY. It is already in the record, and I think it would be well for him to cover this again. If I did not get it right, it is not due to any intention to mislead, but merely for the purpose of getting more light as to the attitude of the Federal Reserve Board.

What I want to get is whether or not the Federal Reserve Board and the highest banking authorities in the country believed that the banks to which we referred and about which we have been talking were sound and were being conducted in a proper banking manner, and, of course, any explanation or any light that the governor may be able to give us on that subject is all that I am asking for.

Governor YOUNG. That will require a little explanation, Mr. Congressman, which I am very glad to give.

You are familiar enough with country banking as it was conducted for a great number of years to know that such a thing as a statement of a borrower was very, very seldom ever given to a country banker. The country banker felt he knew everyone in the community and knew all about their affairs, and he lent on that knowledge or that assumed knowledge. That was the information that the examiner had, to pass upon the assets of that bank, simply what the banker told him. I do not mean by that that the banker was dishonest; he really thought that he knew all about that bank; he would tell the examiner what he knew about a note. It would appear like good credit and the examiner would pass it.

From 1918 on, however, country banks proceeded to secure statements from their borrowers, so that by 1921, in the Northwest, it was a general practice both with member and nonmember banks to secure statements from all borrowers. Those statements were not always accurate as to values. The farmer in good faith would list 160 acres of land at \$200 an acre—

Mr. BUSBY. Well, now, let me interrupt you there. The fact was that the market value of those 160 acres in all probability was \$200 an acre at the time he listed it.

Governor YOUNG. Probably.

Mr. BUSBY. And is it not a fact that conditions could have changed so much within a year that that same land on the market would not have brought more than 50 per cent of the price that it was listed at a year before?

Governor YOUNG. Yes.

Mr. BUSBY. That was really the trouble with the banks in that territory and in all agricultural territory, to a large extent, was it not, that the deflation brought down the values and left the loans without sufficient security?

Governor YOUNG. Well, that came with too liberal lending in the first place. What I am attempting to point out, if I can just go a little bit farther, Mr. Congressman—

Mr. BUSBY. I wanted to cover several other things, and wanted to abandon this line.

Governor YOUNG (continuing). Is that previous to 1919 national-bank examiners and Federal reserve authorities had very little to go on other than the word of the country banker, and I am not accusing him of anything dishonest at all; it may be that he thought he knew all about this territory when he really did not, and under those conditions, with the reports on those banks, we probably would have accepted many of them for membership. After 1920 or 1921, when these lines of credit were supported by statements of the farmer, and the banker learned that the farmer not only owed his bank but owed maybe another bank and maybe three or four banks, and was liable in many ways as an indorser, that paper had an entirely different complexion, so that after 1921, had these same 2,500 banks applied to the Federal reserve for admission, probably a great number of them would not have been admitted.

Now, do I make my point clear?

Mr. BUSBY. I wanted to come to this, and that is the idea of a trade area—of a branch banking system being made secure by operating in a trade area. Had a branch banking system with the same view that the Federal Reserve Board had concerning the solidity

or stability of many of these banks operated in the territory of the central northwest and been subjected to the same deflation which was brought about, according to my notion, largely by reason of the action of the Federal Reserve Board in 1920, especially with regard to lands, would not the branch banking system confined to that trade area have received a considerable shock if it had not gone under just like the individual banks did?

Governor YOUNG. To a degree, Mr. Congressman, I think it would have, but let us follow that in actual practice. Everything is a trade area.

Mr. BUSBY. That is my idea about it.

Governor YOUNG. A little community, say in South Dakota, finally got up to a place where it had inhabitants numbering 200 or 300, with a trade area for a radius of 5 or 10 miles. After it became that trade area, the unit banker entered into that community and did business. That trade area, in turn, was connected with another trade area.

Sometimes it is well to illustrate by specific example, and I will in this case by taking Aberdeen, S. Dak. Aberdeen, S. Dak., is a trade area, I suspect, for a distance of from 50 to 75 miles north, south, and west, and possibly 25 miles east. Those banks did business with possibly 200 little banks in that neighborhood. It was the customary practice, however, of the Aberdeen bank to lend those smaller banks money for seasonal requirements in the fall of the year, and it was always paid back. In 1919, because of railroad conditions and many other factors, they were not paid back, and, in fact, many of these little bankers went to the Aberdeen banker and told him all of their troubles and asked what they should do and asked for advice and also asked for more money. The Aberdeen banker lent more money. In 1920 that did not come back, and more money was required. Obviously the Aberdeen banker proceeded to look into many of these little units, and, while he could not operate them, he could state the conditions under which he would lend additional money to them, which he did, but even that was too small, and many of these little banks in that neighborhood, and, say, 50 other communities like it in the Northwest, found it necessary to go to their Minneapolis and St. Paul correspondents and they in turn found it necessary to go to the Federal reserve bank of Minneapolis, and, for the years 1920, 1921, 1922, 1923, and 1924 they borrowed very heavily, so much so that the Federal reserve bank at Minneapolis, if I remember correctly, was a continuous borrower from other Federal reserve banks for almost a period of a year and a half.

Now, there was a larger trade area centering in Minneapolis and St. Paul. I believe, Mr. Congressman—and our hindsight is always better than our foresight—that if branch banking had been permitted in that little trade area of Aberdeen 20 years ago many of these difficulties would have been avoided. However, that is an opinion. I believe to-day that that small trade area has passed; there has been a development away beyond that. It is almost beyond district lines, but it is confined pretty well to trade areas.

You can not define a trade area by mileage. It might be 50 miles from one community; it might be 100 miles from another community; and, as it is in the Northwest, it stretches almost two-thirds of the way across the United States.

Mr. BUSBY. All right. In that connection, I want to read just a few lines from a book, *Reserve Banks and the Money Market*, by Mr. W. Randolph Burgess, assistant Federal reserve agent for the Federal Reserve Bank of New York, which book has a foreword by Mr. Benjamin Strong. On page 1 he says, "To reap the benefits of nation-wide branch banking this country would have needed banks with branches so far separated as the distances between London and Moscow, Constantinople and Paris, or Madrid and Vienna," giving me an idea as to what he conceives to be the proper "trade area" for branch banking.

What do you have to say in connection with his view as to the extent to which branch banking ought to be operated if it is going to be worth while and effective in this country?

Governor YOUNG. That, Mr. Congressman, is what I have been attempting to determine in my own mind, the trade area that it should be confined to. I have just stated that I thought it would have been a better development in this country if it had been confined to that little trade area that I recently described surrounding Aberdeen, S. Dak., but it has now gone beyond that, and what limit should be placed on that I do not know at the moment. I hope that this committee can get something that will define that area.

The CHAIRMAN. Will the gentleman yield for a question?

Mr. BUSBY. Certainly.

The CHAIRMAN. Governor, when the Federal reserve system was established, we created 12 districts. Those were sort of trade areas, were they not?

Governor YOUNG. They were.

The CHAIRMAN. And has the idea been abandoned that the tying up of the member banks with the Federal reserve bank for the district can not serve the public satisfactorily and thus observe a unit system?

Governor YOUNG. There are some difficulties with that, Mr. Congressman—for instance, in Kansas City. Kansas City only has a very small strip in the State of Missouri that belongs to the Kansas City Federal reserve district. Obviously their trade area must extend into the Missouri territory much farther than the Federal reserve has outlined. You will find that in all the districts there is an overlapping. For instance, in the ninth Federal reserve district, where northern Michigan and northern Wisconsin have been assigned to the Minneapolis district, both Chicago and Minneapolis serve a trade area in that territory.

The CHAIRMAN. Is not that the fault of the laying out of the districts, and could not that be corrected by a rearrangement of districts?

Governor YOUNG. I do not believe so.

The CHAIRMAN. Then apparently there are defects in the theory which was the basis for the establishment of the 12 Federal reserve districts.

Governor YOUNG. No, I do not think so. There will always be overlapping.

I will put it this way, Mr. Chairman, that the 12 Federal reserve districts, with the 25 branch districts, come just about as close as it is practicable to define a trade area at the present time.

Mr. BUSBY. I understand Mr. Seiberling wishes to ask a question.

Mr. SEIBERLING. I just wanted to ask you one question. I find that there is objection in my city to branch banking because the plan that you have would enable a bank in Cleveland to put a branch down in Akron, where we have all the banking facilities that we need. Would it be a feasible thing to have a bill passed to provide that branches might be put in trade areas but not in any county where they had a city with a population of, say, 100,000, or something of that kind?

Governor YOUNG. That branch could not be put in Akron except with the approval of the Comptroller of the Currency.

Mr. SEIBERLING. But he might approve it.

Governor YOUNG. And I think that with the experience that we have had, the probabilities are that the Cleveland bank would not go into Akron territory and establish a branch, but they would probably associate or affiliate with some established bank in Akron and establish that as a branch.

Mr. SEIBERLING. Would such a provision as I have indicated be a feasible one, in your judgment?

Governor YOUNG. I have thought of that, but have not arrived at any conclusion about it yet.

Mr. SEIBERLING. Thank you, Mr. Busby.

Mr. STRONG. May I ask a question? It would be rather dangerous to rest upon the presumption that the Cleveland bank would not be allowed to put a bank in Akron, or Dayton—

Mr. SEIBERLING. Or Canton.

Mr. STRONG (continuing). As long as we had a comptroller who believed in branch banking, would it not?

Governor YOUNG. Well, can we not take the results of the McFadden Act, Mr. Congressman? You recall when the McFadden Act was before Congress, everyone believed that there would be a branch established on every corner the same as is the case with chain stores.

Mr. STRONG. I did not.

Governor YOUNG. That was one of the arguments that was used.

Mr. STRONG. I can not speak for anybody else, but I did not believe in any such proposition as that.

Governor YOUNG. That was one of the arguments made at the time. However, that has not developed, and, in so far as the McFadden Act is concerned, I can not help but feel that there has been no abuse in connection with the establishment of branches in the larger centers of the United States.

Mr. STRONG. Has not the argument been made that the bankers are doing now indirectly what the law prohibited them from doing directly in establishing groups and chains all over the United States? If they are going to keep it up, in two years they will have them in every State of the Union.

Governor YOUNG. I assume that those groups are operating within the law.

Mr. STRONG. The intention of the law was that they should not proceed in that way. It was said here at the time that if we would give the national banks the right to have branches in the States where they permit branch banking, and limit them to the cities where the parent banks are located, that that would satisfy the situation. Now we are told by men who believe in branch banking that group and chain banking are developing to such an extent that within two years they will be in every State in the Union and Congress

will then feel that it is desirable to go to branch banking to avoid the more undesirable group and chain banking.

Governor YOUNG. It appears to me, Mr. Congressman, that that is what you are confronted with right at the moment. These groups and chains have developed; they have been in existence for 30 or 40 years.

Mr. STRONG. Only a few of them for that length of time.

Mr. BUSBY. I would like to go ahead whenever you get through with that, Mr. Strong, as consistently as I can, because I want to get through.

The Canadian branch-banking system is such that the banks in Canada may establish a branch in the most remote part of the Province, is it not?

Governor YOUNG. I am not familiar with the law, whether they have to secure permission from the Government, or whether they just establish it.

Mr. BUSBY. I am not talking about how they do it, but the law permits any one of the 34 banks there to establish branches wherever they care to by complying with the proper requirements of the law.

Governor YOUNG. That is my understanding.

Mr. BUSBY. So that there is no attempt to define a trade area in branch banking in Canada?

Governor YOUNG. That is correct.

Mr. BUSBY. I read in this same volume of Mr. Burgess's that about 20 years ago the writer took part in a debate on the subject, "Resolved, that the United States should adopt the Canadian banking system."

Did it ever occur to you that we would be better off with our banking arrangements if we had the Canadian system instead of the American system?

Governor YOUNG. No; I would prefer to see a central bank of issue, which Canada has not.

Mr. BUSBY. The Canadian banks issue what we call paper money in this country without putting up any deposit or reserve whatever back of that to secure it, do they not?

Governor YOUNG. I do not think so. It is secured by gold up to a certain point, and, for seasonal requirements, the Government permits them to issue up to a limited amount against securities, if my memory of the law is correct.

Mr. BUSBY. I am not particularly interested in following that.

Governor YOUNG. It is a secured currency, I am sure, Mr. Congressman.

Mr. BUSBY. Now, in Scott on Money and Banking, I read this, on page 240:

After several bank failures in Canada—

About 1880—

agitation for a radical modification of the banking system was revived, and it was again proposed that the system in vogue in the United States should be introduced

So that the Canadian system, with all of its advantages of branch banking, is not to them the ideal system, as I understand their attitude toward banking?

Governor YOUNG. I can not answer for the Canadians. I know that on different occasions they have investigated the Federal reserve system. Two years ago Governor Harding of the Federal Reserve

Bank of Boston appeared before the Canadian authorities and gave them a very complete and very accurate description of the Federal reserve system. What action has been taken since then I do not know.

Mr. BUSBY. In order that we may have a general conception of the field in which banking operates, and the necessity for banking, the national wealth of our country is estimated around \$300,000,000,000 is it not, in round numbers?

Governor YOUNG. Yes.

Mr. BUSBY. I notice that Mr. Pole states in the 1929 report of the Comptroller of the Currency that the bank assets are about \$72,000,000,000, so that the bank assets represent about 24 per cent of the national wealth. In the same report he also states that the loans and investments of banks in this country are practically \$58,000,000,000, and that the other \$14,000,000,000 represent bank shares and other assets of the banks.

What I am coming to is this, the usual growth of our business activities in this country increases its need for credit, according to actuaries and economists, amounts to about 4 per cent a year, but in 1928 business developments need for credit amounted to an increase of only about 3 per cent.

Mr. SEIBERLING. Three per cent of what?

Mr. BUSBY. Three per cent of the bank credits outstanding; 1928 was a very active year in stocks and bonds, and in speculation, and I am coming now not to all the loans made by the banks in the country, but to brokers' loans made on the New York Stock Exchange, and I am reciting more than perhaps I ought to in order to get to the point that I want to talk about.

Taking the reports of all banks in the United States, the combined loans and investments on January 1, 1928, total \$55,450,000,000; on January 1, 1929, they were \$58,206,000,000. That was an increase in bank loans of \$2,816,000,000, or an increase of 5.1 per cent increase.

Now, as to loans by banks "for the account of others," and that type of loan carries no reserve whatever, does it—it is simply put out and called in?

Governor YOUNG. That is correct.

Mr. BUSBY. On January 1, 1928, those loans amounted to \$1,627,000,000, but by January 1, 1929, loans made by banks for "account of others" were \$3,361,000,000, or an increase of \$1,734,000,000, more than a 3 per cent increase in the Nation's bank credit—in that type of loan, with the 3 per cent increase in the Nation's need for credit for the country and adding it to the 5.1 per cent increase of credit made by banks in the regular channels of banking loans, there was more than an 8 per cent increase in credit as against a 3 per cent requirement for credit for business needs. That gave a certain inflation of credit of more than 5 per cent over and above the increase in the need for credit by business. Is that not true?

Governor YOUNG. I have tried to follow you very carefully, Mr. Congressman. Let us go back to one figure you gave, or possibly two. You figured the increase in brokers' loans between January 1, 1928, and January 1, 1929, for the account of others, as \$1,700,000,000?

Mr. BUSBY. Yes.

Governor YOUNG. And, figured that is 3 per cent of the total wealth of the country?

Mr. BUSBY. I will state it this way: So the necessity for credit on the bank credit outstanding was 3 per cent, but the credit extended was 8 per cent, and, if that be the situation, would that not increase inflation of credit tremendously and tend to cause just what happened in the stock market in October, 1929?

Governor YOUNG. I think it did. I am not subscribing to your figures, but I think they are approximately correct.

Is not that right, Doctor Goldenweiser?

Doctor GOLDENWEISER. I think so.

Governor YOUNG. There is a natural increase each year of about 3 per cent, I believe. Is not that about the normal increase?

Doctor GOLDENWEISER. Increase of credit?

Governor YOUNG. Increase of credit.

Doctor GOLDENWEISER. They usually estimate it from 4 per cent to 5 per cent.

Mr. BUSBY. Going along further, brokers' loans, call loans, on September 26, 1928, were \$4,435,000,000. On the same date in 1929 they amounted to \$6,671,000,000, a considerable increase. On October 2, 1929, they jumped to \$6,804,000,000, the peak of brokers' loans.

Now, I want to divide those into the sources from which they came, so that we can understand the operation of money in New York City and where it came from.

I find that brokers' loans made by New York City banks on January 5, 1929, were \$837,000,000, and on September 25, 1929, the New York banks had increased their loans to \$1,024,000,000, an increase of \$187,000,000 in that short time.

Now, the second source from which the call loans came was from the New York banks for out-of-town banks, and that relates specifically to instances such as Mr. Dunbar referred to the other day when he said that one of his city banks of New Albany, Ind., sent \$200,000 to New York banks to loan on call because of the splendid rate of interest.

The New York banks, were loaning for out-of-town banks, on June 5, 1929, \$1,513,000,000, and on September 25, 1929, \$1,876,000,000, an increase of \$363,000,000 in three and a half month's time.

Governor YOUNG. May I make a slight explanation of that particular figure? That may represent loans of country banks to that amount and it may not. For instance, if I am a customer of a bank in Chicago, and I elect to lend \$1,000,000 on call in New York, I instruct my Chicago bank to charge my account and to lend that amount. When that goes to New York, the transaction is made for the Chicago bank and may be reported in these figures as lent for out-of-town banks when, if you were to trace the transaction back, you would really find that it was lent for a customer bank. Those figures we can not separate. So that may have some bearing on this increase.

Mr. BUSBY. I am glad to have that explanation.

In coming to the third source of call loans, on June 5, 1929, the loans made through New York banks for the account of others were \$2,934,000,000—

Governor YOUNG. \$2,923,000,000.

Mr. BUSBY. And on September 25, 1929, those loans had increased to \$3,860,000,000.

Governor YOUNG. Correct.

Mr. BUSBY. Or, in three and a half months, this increase in call loans made by other than banking institutions was \$926,000,000, so

that in percentages the call loans shortly before the break in the market stood as follows: The New York banks were lending 15 plus per cent of the money; the banks outside of New York City were lending about 28 per cent of the money; and individuals, corporations, and trust companies were lending 57 per cent of the call money in New York City; and that 57 per cent had no reserve whatever back of it, did it?

Governor YOUNG. None whatever.

Mr. BUSBY. Now, in the event that the market should become shaky and in the event that the individuals who had made call loans wanted to get their money, what could be done by investors in stocks when called on for a repayment of these loans except to throw their securities on the market or have them supported by the banks?

Governor YOUNG. It was either one or the other.

Mrs. PRATT. May I ask a question?

Mr. BUSBY. Surely.

Mrs. PRATT. Did that cover entirely call loans?

Governor YOUNG. There were some time loans aggregating about \$600,000,000.

Mr. BUSBY. I believe I am dealing with call loans altogether.

Governor YOUNG. No; both time and call loans, but the time loans are very small.

Mr. BUSBY. The time loans about that time ran only about ten or twelve per cent of the total of brokers' loans, did they not?

Governor YOUNG. I think that is approximately correct.

Mr. BUSBY. So you can see how little of that amount was stable and fixed and how much of it was liquid and could be slipped out from under the stock investors in a days' time and leave them stranded in the air, so to speak.

Now, I beg your pardon for calling attention to so many figures, but banks deal with figures and the only way we can get at conclusions is to come along down this line.

Now, the banking situation in the country as developed during the last two years especially has been conducive to the result we have just described here, has it not?

Governor YOUNG. It has permitted it, but I think, generally speaking, the bankers of the country discouraged it. Competition and many factors forced them to do—

Mr. BUSBY. But many of the banks in the country have established very extensive trust and investment subsidiaries which have brought to the front many of the stocks which went on the market and increased the number of listings on the New York Stock Exchange. I will add to that question this, so that you can answer it all together: Has not the "right to purchase" shares issued to members of these financial institutions been a source of great inflation in stock issues?

Governor YOUNG. Generally speaking, and I am talking a good deal from memory, Mr. Congressman, the banks in the country did not participate in that inflation. Now, there are exceptions to every statement, of course.

Mr. BUSBY. Banks now operate many kinds of businesses. I use the Bank of Italy again as an example. The best information we have here is that the Transamerica Corporation, which is the controlling body of all of the Bank of Italy interests, has these different activities in hand—banking, securities, dealing in realty, security underwriting,

holding company, dealers in mortgages, farm loans, both joint-stock land bank loans and the ordinary farm loans, fire insurance, and, in fact, practically every business activity that our country deals with in a large way. Now, does it not strike you that a bank interested in the development of all of those lines, many of which presuppose the issuance of stocks that are eligible for listing on the New York Stock Exchange, tends greatly to increase the amount of listings?

Governor YOUNG. Well, the stocks that you have mentioned so far, Mr. Congressman—land bank bonds, insurance stocks, Transamerica, and the various ones that you did name, are not listed on the New York Stock Exchange, I think, and I question very much whether any of the loans represented by the brokers' figures that you have cited cover any of those securities which you mentioned.

Mr. BUSBY. How about securities underwriting and the activities that the underwriting business develops?

Governor YOUNG. Those credits covering underwritings of bonds and others are included in those brokers' figures. To what extent I do not know, and I do not think anyone else knows. It is extremely difficult to get that information. As a guess, however, I would say that it represents a very small percentage of it in so far as bonds are concerned. Obviously when the larger corporations that were listed on the stock exchange issue rights and those rights were subscribed and paid for, much of the credit extended was represented by this increase in brokers' loans.

Mr. BUSBY. A few days ago I ran across an article written by Lawrence Stern & Co., investment bankers of Chicago and New York, in which investments in bonds are shown in the aggregate over a 10-year period and the investments in stocks are shown during the same period. These are reliable people that I quote from, are they not?

Governor YOUNG. I assume so.

Mr. BUSBY. I say that with a view of asking that these figures may be inserted in the record for the information of those who may want to refer to them later.

The CHAIRMAN. Without objection, that will be placed in the record.

(The article referred to is reproduced below.)

PROSPERITY SHOWN BY INVESTMENTS—GROWTH OF PUBLIC PARTICIPATION IN
NEW FINANCING IS ANALYZED

CHICAGO, March 26.—A striking indication of the rapid growth of wealth and prosperity in the United States is found in the constantly increasing amounts invested annually by the American public in new securities. Such investment for the past 10 years has totaled more than \$72,000,000,000, according to a statistical survey just completed by Lawrence Stern & Co., investment bankers of Chicago and New York.

Significant of the rapid growth of interest in securities, the survey pointed out, is the fact that while in 1920 the annual volume of investments was only 5 per cent of the national income, in 1929 annual security purchases had risen to 13 per cent of the estimated national income.

INVESTMENT AND POPULATION

"A comparison of the growth of security buying with the growth of population," said the survey, "furnishes an equally striking illustration of the increase in the securities market. The 1920 total of new security issues represented an annual per capita investment of only about \$36.50, whereas in 1929 the annual

investment in new securities per capita had risen to approximately \$96.50. In other words, new securities absorbed by the American public in 1929 were equivalent to nearly \$100 for each man, woman, and child in the country.

"According to recent estimates, there are about 17,000,000 investors in the country, so the per capita share among actual investors would amount to about \$600 in 1929. It also is interesting to note that available income tax figures show that while only 936,470 in the entire country have incomes of \$5,000 or more, almost 20 times that number have had the vision and confidence to lend their savings to the furtherance of the Nation's industrial and commercial importance.

"Expressed in terms of volume, the increase in new securities purchased by investors shows a gain of 190 per cent in the 10-year period—from an annual total of about \$4,030,000,000 in 1920 to more than \$11,500,000,000 in 1929.

"Except for slight declines in the years of 1925 and 1926, there has been a gradual increase each year in the volume of new securities sold. Since 1926 a yearly average of more than \$10,000,000,000 in investment capital has been poured into new stocks and bond securities, climaxed by the new high record established last year.

NEW SECURITIES

"While the relative importance of stocks as investment media has increased in recent years, bond issues comprised 74 per cent of the total of new securities sold during the 10-year period studied, 1920 to 1930, inclusive. Bonds have constantly led stocks in popularity until 1929, the first year in history in which stock issues exceeded bond offerings.

"Since 1922 the volume of stock financing has been increasing—in that year only \$623,299,000 in stock issues was sold out of a total of \$5,239,000,000 securities offered. Gradually increasing stock investments, however, reached \$3,575,000,000 in 1923 and then almost doubled in volume in 1929, reaching the high point of \$6,865,000,000 and exceeding the bond offerings by more than two billions of dollars.

"That the excessive stock offerings in 1929 represented an abnormal condition seems to be proved by the fact that immediately following the stock market decline in November, a preponderance of bond offerings was again established and has been consistently maintained ever since. Bond financing has long been the favorite method of providing capital for the country's business and industrial growth and continues to carry a strong appeal to the conservative investor.

"So far in 1930 the bond volume has been substantially in excess of 1929, new offerings in the first two months of the year having totaled over \$1,200,000,000, as against \$850,000,000 in the same period last year—an increase of nearly 45 per cent.

"Ever since the Liberty loan campaigns the volume of bonds absorbed by the public has been gradually growing. For the 10-year period, 1920 to 1929, inclusive, investors have purchased \$53,156,383,000 in bond issues.

TREND OF FINANCING

"In the same period the total of stock issues was but \$19,003,738,000—more than 60 per cent of which were purchased by investors during the last three years."

The following compilation shows the trend of new security financing annually during the 10-year period, 1920 to 1929, inclusive:

	Bonds	Stocks
1920	\$2,938,964,000	\$1,071,084,000
1921	3,924,429,000	867,010,000
1922	4,615,870,000	623,992,000
1923	4,233,130,000	746,459,000
1924	5,482,033,000	866,286,000
1925	6,132,921,000	1,310,971,000
1926	6,183,395,000	1,317,772,000
1927	8,429,193,000	1,758,606,000
1928	6,397,637,000	3,575,979,000
1929	4,820,804,000	6,865,579,000

Mr. BUSBY. I have called your attention to these figures which, of course, you do not vouch for, but which, if correct, would show, would they not, that our system of banking or the disposition of the public or some other unmentioned reason has caused a considerable increase in the buying of stocks and a disposition to disregard the buying of bonds?

Governor YOUNG. I would say that it was the disposition of the public, and that that prevailed until October of 1929; and, since December, I have not the figures, but I would not be at all surprised if it would show that they were turning back to bonds.

Mr. BUSBY. Bonds are more stable and a sounder investment than stocks, are they not?

Governor YOUNG. I would say so; yes.

Mr. BUSBY. Banking circles so regard them, do they not?

Governor YOUNG. They do. A bond is usually a secured obligation. A stock is an equity security, as a rule.

Mr. FORT. In some companies the bonds are not as good as in others.

Governor YOUNG. That is true. There are exceptions to every statement I make.

Mr. BUSBY. I would like to call attention, just for the purpose of placing it in the record, to a statement in the report of the president of the New York Stock Exchange issued in 1929, wherein he says, on pages 24 and 25, that the bonds listed on the New York Stock Exchange in 1929 amounted to \$47,379,000,000 and the stocks listed amounted to \$67,474,000,000, a total of \$114,851,000,000 in listings on the New York Stock Exchange for 1929, an increase over 1928 of \$28,240,000,000, or 33 per cent. I do that for the purpose of showing the disposition, either under our present banking system or for some other reason, on the part of the public to get into that type of transaction which most of the people in this country believe to be almost wholly a gambling proposition instead of an investment proposition.

Governor YOUNG. Mr. Congressman, I would like to call attention, in connection with that point, to this: I think you said that the listings on the New York Stock Exchange now were \$140,000,000,000, or were in January?

Mr. BUSBY. \$114,000,000,000 on January 1, 1929.

Governor YOUNG. Well, let us take January 1, 1929; there was \$114,000,000,000 worth of securities, all paid for except \$5,330,000,000 represented by brokers loans at that time, or, going a little beyond that and taking all the security loans by all the banks, you bring it up to \$7,800,000,000. It illustrates the tremendous buying power of the American public.

Mr. BUSBY. I realize it.

Governor YOUNG. When you figure that over 90 per cent of all of these securities are paid for.

Mr. BUSBY. Now, that brings us back to this: Is it not a fact that this buying power of the public has been brought together and centered in New York and that that was largely responsible for the distressed conditions in many other sections of the country? In other words, did not the New York Stock Exchange siphon the money out of all other sections of the country to that one center, to the great detriment of business and, in many cases, to the absolute destruction of business?

Governor YOUNG. I would not put it quite as strong as that, Mr. Congressman. The entire banking structure of the country had fifty-eight billions in loans and investments, of which the banks, at the peak before the crash, had loaned about two billion and a half. That is about 5 per cent.

Mr. BUSBY. I know that down in my State you could not sell municipal, county, or State 6 per cent bonds to any advantage at all, because the money had all been taken out to be used in operations on the New York Stock Exchange, not with a view of getting dividends but with the hope that the stocks would go up in price and that the buyers could get out from under them at a profit, and leave them with somebody else.

Governor YOUNG. That was the general feeling with many people in the United States.

Mr. BUSBY. Do you not think that a banking system that will encourage that condition is not to the best interests of the country as a whole?

Governor YOUNG. Well, I take the other view, Mr. Congressman, that the banking interests of the country, generally speaking, discouraged that.

Mr. BUSBY. When those same banking institutions have trust subsidiaries and bond-selling syndicates organized under their control, do you not think that those were the direct causes of the overissuance of bonds that were listed on the New York Stock Exchange?

Governor YOUNG. Bonds or stocks?

Mr. BUSBY. Bonds and stocks.

Governor YOUNG. To a degree; yes.

Mr. BUSBY. In other words, if these syndicates did not develop the business they are in, there would be no profits in their operations; and was that not involved at that time as a buying factor?

Governor YOUNG. Correct; but I think we will all agree that the distribution of bonds through independent houses or any selling organization is all right; I mean good bonds.

Mr. BUSBY. Yes; I think so; but will you not also go far enough to say that many of the stocks listed on the New York Stock Exchange never paid a dividend, and that many of them never will pay a dividend to the buying public?

Governor YOUNG. Well, I am not familiar with the details of the stock, but I will just accept your statement as an accurate one.

Mr. BUSBY. One other thought. There is a great tendency in this country among the bigger banking institutions to combine with other big banking institutions and make still bigger banking institutions, is there not?

Governor YOUNG. That is true in the larger centers.

Mr. BUSBY. A list given out by the New York Times a few days ago contains 12 banks throughout the world 5 of them in the United States, with total resources of more than \$20,000,000,000. What do you have to say with regard to there being a disposition among the banking interests of the world to bring their operations together in such a way that will unify the banking activities of the world into one general or great system of financing?

Governor YOUNG. I believe it is impossible.

Mr. BUSBY. You believe it is impossible?

Governor YOUNG. Yes.

Mr. BUSBY. Well, is it not a fact that the Federal reserve system of our country has been operating, within recent months, so as to assist the banking interests in England?

Governor YOUNG. Not that I know of.

Mr. BUSBY. Has it not maintained a discount rate favorable to the Bank of England, so that the Bank of England might build up its gold reserves?

Governor YOUNG. The Bank of England has preceded the Federal reserve system for a period of four or five months in discount rates.

Mr. BUSBY. That is what I speak of. Has it not always maintained—

The CHAIRMAN. If you will pardon an interruption, I was going to suggest that we have matters in the House that are of importance to all of us, and perhaps we had better quit at 12 o'clock. I suggest that we adjourn at that time.

Mr. BUSBY. I can suspend at any time, Mr. Chairman.

The CHAIRMAN. Well, I suggest you go ahead until 12 o'clock.

Mr. BUSBY. Has it not always maintained a discount rate that gave the Bank of England an advantage of one-half of 1 per cent until recently, and would not that situation naturally tend to build up the Bank of England's gold reserve?

Governor YOUNG. It would under normal conditions, with the free flow of gold between the countries. The situation that existed from, I am going to say, January 1, 1928, until October, 1929, a period of approximately 21 months, was such that the discount rate had but little effect. The call rate was the controlling factor.

I should like to put a little something else in the record here; that is, when you refer to brokers' loans, many of those were for foreign account.

Mr. BUSBY. I see, but they affected our stock market just the same, nevertheless.

Governor YOUNG. Doctor Goldenweiser calls my attention to the fact that the Bank of England's discount rate is below our rate.

Suppose you make that statement for the record, Doctor Goldenweiser.

Mr. GOLDENWEISER. The Bank of England's discount rate was below the New York discount rate from July 13, 1928, until February 7, 1929.

Mr. BUSBY. Now that condition existing has enabled the Bank of England to build up the best gold reserve that it has had for some years, has it not?

Governor YOUNG. I think their gold holdings have been much higher at different times.

Mr. GOLDENWEISER. They have been losing gold.

Governor YOUNG. They have not accumulated any great amount of gold during the last five months. They are apparently satisfied with their position.

Mr. BUSBY. Two nights ago, Mr. James G. MacDonald, who talks on the international situation, especially with regard to finance, spoke on the Bank for International Settlement. He made the statement, that shortly after its organization, \$9,000,000,000 in German bonds would be turned over to the Bank for International Settlements—which is located in Switzerland and will be managed by

25 individuals, and those bonds are to be sold to the public throughout the world to finance Germany's reparations. I will ask you if you have given any study to the preliminary steps that have been taken to organize this international bank.

Governor YOUNG. I have.

Mr. BUSBY. That is about the amount of German bonds it will undertake to handle, is it not?

Governor YOUNG. Yes.

Mr. BUSBY. He also stated that the New York market will be expected to take a considerable share of these bonds. Do you know whether or not that is true?

Governor YOUNG. They expect the New York market will absorb some.

Mr. BUSBY. The New York market is the greatest market in the world to-day for stocks and bonds, is it not?

Governor YOUNG. I think so; yes, sir.

Mr. BUSBY. When the New York market takes those bonds, what will be the natural course, in a banking way, for it to take with respect to them?

Governor YOUNG. They will be taken by private or public subscription, I suspect.

Mr. BUSBY. Well, is it your opinion there will be any limit to which New York will be supplied with those bonds?

Governor YOUNG. Well, they can not take them, Mr. Congressman, any faster than the public will take them.

Mr. BUSBY. In other words, as fast as the American public will absorb them by purchasing them, bonds will be supplied to the New York banks or the New York bond market for the public in America, will they not?

Governor YOUNG. I think there will be many restrictions on that. Obviously on one would care to borrow the entire amount at once. It will be borrowed as and when needed.

I think the initial offering that has been suggested is in the neighborhood of \$300,000,000 of which this market will be expected to take \$100,000,000. That is nothing but gossip, however.

Mr. BUSBY. I understand.

Governor YOUNG. Our people have figured out that the maximum that could be out at any one time, under the reparations settlements, will be in the neighborhood of \$2,000,000,000. Is not that correct, Doctor?

Mr. GOLDENWEISER. Yes, sir.

Mr. BUSBY. I suppose it is generally understood that the New York bankers have loaned billions of dollars to the European governments and European nationals and those loans are outstanding at the present time. Have you any information on that?

Governor YOUNG. I have not, but I can get that.

Mr. BUSBY. Would you mind, if the chairman thinks this is proper, furnishing us, for the record, the amount of loans made by American banking institutions to European government and European nationals, so that we may see something concerning the status of the private banking condition between our country and the countries in Europe?

Governor YOUNG. That would cover municipalities and industrial concerns, or any bond issues floated—

Mr. BUSBY. Due to be repaid to our people.

Governor YOUNG. I think those figures can be obtained.

The CHAIRMAN. Without objection, they will be inserted in the record at this point.

(The figures referred to are printed in full as follows:)

INTERNATIONAL CAPITAL POSITION OF THE UNITED STATES

Following is a brief statement of the best available estimates of the international capital position of the United States at the end of 1928, the latest date for which figures are available, based on the publication of the Department of Commerce, entitled "The Balance of International Payments in the United States in 1928." It should be noted that these figures are in the nature of estimates—

[In millions of dollars]

	Due from abroad	Due to abroad
Securities (excluding war debts).....	13,555	4,181
Deposits and short-term loans.....	797	2,803
Liability on account of acceptances.....	779	53
	15,131	7,037

Mr. BUSBY. As fast as the reparation payments are made through the Bank for International Settlements what would prevent the funds from being applied as credits to the countries to whom they should be paid and then passed over to liquidate the obligations of those countries to the international bankers and the American lenders of those countries?

Governor YOUNG. If I correctly understand your inquiry—

Mr. BUSBY. Through the Bank for International Settlements?

Governor YOUNG. The initial transaction will be through the Bank for International Settlements, and those countries that receive the money and receive the credits could do whatever they wanted to with the money. If they wanted to pay their obligations to America, of course, they could pay them.

Mr. BUSBY. Practically the same situation was pictured the other night by our chairman, and it was his deduction that those payments would actually come into—and if I misstate the chairman I hope he will correct me—will come largely into the hands of those who had extended the loans to European countries, and they would get immediate payments of those amounts immediately after they are paid on the reparations, and they could proceed with their banking activities, having collected their money from the European countries in that way. Would there be anything to prevent that?

Governor YOUNG. Immediately? Yes; many things.

Mr. BUSBY. I mean within a reasonably short time.

Governor YOUNG. I would rather say it was possible over the period of 60 years, which period is set up as the period over which the payments are to be made, and the assumption is that a sum has been fixed that Germany can and will pay.

Mr. BUSBY. As soon as the bonds are sold the amount of money secured through the sale of reparation bonds of the German Government would be available to somebody, would it not?

Governor YOUNG. Yes.

Mr. BUSBY. Would anything prevent an arrangement between the American bankers and European countries whereby this money

may be paid over directly to the American bankers as soon as the bonds are sold?

Governor YOUNG. Those are details that I should like to make some inquiries into. I suppose they can pay that when they want to. Obviously, I should think they would use it to reduce their obligations to this Government.

Mr. BUSBY. That would be the natural inclination if the bankers did not intervene with their scheme.

Now, one newspaper in this country sought to criticise our chairman, and I think very unjustly so, for having expressed a conclusion which we have practically reached in discussing this same proposition. There is nothing that you know of in the plan for organizing this international bank that would prevent the European governments from paying this money over when the bonds are sold, to satisfy their obligations to the American bankers, is there?

Governor YOUNG. Well, I shall have to check that again, Mr. Congressman.

Mr. BUSBY. That is all I care to ask.

Mr. SEIBERLING. I have just one question, Mr. Chairman.

Mr. FORT. May I ask just one question of Mr. Busby?

Mr. BUSBY. Just a second, please.

The CHAIRMAN. Did you have a question, Mr. Seiberling?

Mr. SEIBERLING. Yes.

Mr. FORT. I wanted to ask Mr. Busby a question in reference to his last question.

The CHAIRMAN. Very well; go ahead.

Mr. FORT. On your previous questions you have developed the idea that the bonds that the American bankers took were all now distributed to the American investing public. When you say these moneys would be used for payment to the American bankers, you mean in order to cancel the obligations held by the American investing public and originally floated by the bankers, do you not?

Mr. BUSBY. I mean this—and of course it is a matter of detail and in the future—when the bonds are delivered to the Bank for International Settlements, if they are passed out to the American public, or to the extent they are passed out to the American public and paid for, the funds would go in to displace the bonds. Then, according to the scheme of things, when payments are to be made to the several countries as fast as these payments are credited to the countries by the Bank for International Settlements, the bankers of America, who have heretofore made loans to those same countries, could come in, and in all probability would, and present their claims for payment.

Mr. FORT. That is what I meant. Their claims, however, are for money they have loaned initially by purchasing the bonds of those countries, but they have turned around and sold those bonds to individual average investors; so, the money would go to the average investor and not the banker. That is what I am getting at.

Mr. BUSBY. To the extent, perhaps, that the individual investor deals with the New York banks in representing him in managing his bond purchases.

Mr. FORT. I know a great many of those issues are widely held by individuals and they would get the money.

Governor YOUNG. I think Congressman Fort's conclusions would be more in line with my own views on that.

Mr. BUSBY. And in meeting that, I want to say this: We have had various Liberty and other loan issues in this country. They went out to the people and the people held them until after 1920 when they sold at 85 or 87 per cent then they drifted back into the hands of the big bankers and they got the people on our own bonds. I do not think our people would fare any better on these international bonds.

Mr. FORT. Of the total floated by the big bankers of about \$300,000,000, they retain part and the public has the rest.

Mr. BUSBY. If something like that \$300,000,000 of bonds have been sold in this country, have you any idea how much of that money will stay in this country?

Governor YOUNG. That would depend upon many factors, Mr. Congressman. It would depend, in a measure, on the gold movement.

Mr. FORT. The payments from all sources would be \$300,000,000; and if the bonds stayed here, there would be no money taken out of the country.

Mr. BUSBY. In order to keep the record straight, let me say this: When the money is available on the reparation bonds when sold, the New York banks that operate in international banking transactions would get the European bonds heretofore issued and sold to the people in the United States at a discount from the public, like they did the Liberty loan bonds, and profit by the discount in purchase. The public would be worked in the same way it was on their own national bonds. There is no reason why they should not, according to the bankers' view.

Governor YOUNG. Liberty bonds sold in 1920 at about 82, 83 or 84. Mr. Smead, have you any figures of the bonds held by the banks in the United States in 1920? They were much higher than the amount held now, so I do not think you can accuse the bankers of the country of taking the profit. They hold less to-day than in 1920.

Mr. BUSBY. I can go into that further, but I will save that for another day. Many of that class of bonds have been called or have matured, and of course are off the market.

The CHAIRMAN. We will adjourn now until Friday morning at 10.30.

(Whereupon, at 12 o'clock, noon, the committee adjourned until Friday, April 4, 1930, at 10.30 o'clock, a. m.)

FRIDAY, APRIL 4, 1930

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

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

The CHAIRMAN. The committee will come to order. Judge Brand, I think you are the next on the list.

STATEMENT OF GOV. ROY A. YOUNG—Resumed

Mr. BRAND. Before proceeding, Governor, to the real issue before the committee, I want to submit a few facts relative to the Federal

reserve banks and the amount of franchise tax they have paid and when they have not paid, and get your judgment about it.

During the years 1914 to 1925, inclusive, the franchise tax paid to the Government by the 12 Federal reserve banks, amounted to \$139,173,943. For the year 1926, only \$818,150 was paid.

In the year 1927 all the 12 banks paid was \$249,591.

In the year 1928 all of the banks together paid an aggregate of \$2,584,659.

The aggregate amount throughout the years up to 1929 was \$142,826,343.

During the years 1927, 1928, and 1929 the New York Bank, the Boston Bank, the Philadelphia Bank, the Cleveland bank, and the San Francisco bank paid nothing. During the years 1927 and 1928 the Chicago bank paid nothing. During the year 1927 the Richmond bank, the Atlanta bank, the St. Louis bank, and the Dallas bank paid nothing.

What I want to know is why these banks did not pay any franchise tax during those years.

Governor YOUNG. Solely because of the law. The law permits the accumulation of a surplus 100 per cent of the subscribed capital of a reserve bank. Generally speaking, the banks in those sections increased their capital, thereby increasing their stock subscription to the Federal reserve stock, thereby increasing the possibility of increasing their surplus account.

In the other sections where a franchise tax was paid the profits in previous years were large enough so that they accumulated their surplus account up to 100 per cent of their subscribed capital, with the result that the balance went to the Government.

Now, in addition to that, I want to call your attention to this, in the Minneapolis district: I am not quoting these figures accurately, but they are approximately correct. Seven or eight years ago the paid-in capital of the Federal reserve bank in Minneapolis was approximately three and one half millions of dollars. Many banks in that territory have closed, and as they closed they used their capital stock as an asset and it was withdrawn from the capital of the Federal Reserve Bank of Minneapolis, so that figures now of the paid-in capital of the Federal Reserve Bank of Minneapolis is approximately three million to three million one hundred thousand dollars. So, the Minneapolis bank reached its 100 per cent of its subscribed capital four or five years ago.

Mr. BRAND. What district is that?

Governor YOUNG. The ninth district.

Mr. BRAND. Is it not strange to you, even in the face of your statement, that during all of the hard and lean years of the country from 1920 on down to 1927, these banks paid millions and millions of dollars of franchise tax into the Treasury and yet these large banks to which I referred during the years 1927, 1928, and 1929, did not pay a cent?

Governor YOUNG. Not strange, under the law.

Mr. BRAND. I do not understand your answer. I asked this question a few years ago, and followed it up by another question, namely: By manipulation of figures and other ways of getting around it, would it not be possible that these banks could reach the point where they would not pay any franchise tax—and on that occasion I got an affirmative answer from that witness. Now, I want to ask you if that is not a fact?

Governor YOUNG. Your inquiry is that they can juggle the figures in such a way that they do not have to pay a franchise tax?

Mr. BRAND. Can they do that or something else in such a way as to avoid paying a franchise tax?

Governor YOUNG. My answer is no.

Mr. BRAND. Why do they increase the stock—to keep from paying a franchise tax or for what reason?

Governor YOUNG. When a member bank that has a capital stock of \$50,000 and increases that capital stock to \$100,000, that requires it to subscribe for that much more stock in the Federal Reserve bank.

Mr. BRAND. Well, I know; but is not the increase of this capital stock one of the reasons why the franchise tax has not been paid?

Governor YOUNG. For the last 10 years there has been an increase in the capital stock of member banks of approximately \$400,000,000. I can get those figures for you, Mr. Congressman. It is very hard to remember them all.

Since December 31, 1926, the capital stock of member banks has increased from \$2,200,000,000 to \$2,700,000,000 and the surplus has increased from \$1,955,000,000 to \$2,864,000,000. I am just taking this roughly.

Mr. BRAND. Yes; I want you to do that in the interest of time.

Governor YOUNG. Yes. That shows an increase of \$1,400,000,000 in capital stock, which requires those banks to subscribe for additional capital to the extent of 6 per cent of that amount, which is \$84,000,000, and to pay in 3 per cent, or \$42,000,000. I will reconcile those figures if I can. I want this to be fairly accurate.

Mr. BRAND. I do not care to go into details too much about it.

Governor YOUNG. I would like to go into details to explain the law and how it came about.

Mr. BRAND. I know what the law is, but I do not know how it came about that those 10 banks ceased, for the years named, paying any franchise tax into the Treasury.

Governor YOUNG. That was an increase in the subscribed capital of the Federal reserve banks by member banks of \$84,000,000, of which \$42,000,000 was paid in, but as those banks earned they were not required to pay a franchise tax to the Government until they had accumulated \$84,000,000 in their surplus account.

Now, maybe I can be specific by taking a certain bank and illustrate by that just what does happen.

Mr. BRAND. Which one will you take?

Governor YOUNG. I will take New York, if that is all right with you.

Mr. BRAND. That is all right with me. For three years they paid nothing.

Governor YOUNG. New York, as of the date of March 26, 1930, has a paid in capital of \$69,718,000, which means a subscribed capital of \$139,436,000.

Its surplus fund at the moment is \$80,001,000, meaning that the Federal Reserve Bank of New York would have to accumulate additional earnings above the 6 per cent that it pays on stock, \$59,435,000 before it would be required to pay any franchise tax to the United States Government.

Mr. BRAND. According to your answer, based upon your figures there, there may come a time when none of the banks will pay anything into the Treasury on the franchise tax.

Governor YOUNG. Quite true. One year Minneapolis was the only bank that paid a franchise tax. I will make that statement and correct if it is not accurate. The method of distribution of earnings of reserve banks is mandatory under the law.

Mr. BRAND. Yes, I know; and it is a very wise requirement.

Governor YOUNG. But there is no way they could juggle those figures at all.

Mr. BRAND. I am glad to hear that. I am surprised to hear that is the only reason they have paid nothing in the last three years into the Treasury.

Governor YOUNG. Well, now, if some one made that other statement, they may have had this in mind, Mr. Congressman: One Federal reserve bank is permitted to rediscount for another Federal reserve bank, so that if the borrowings were very high in the New York district, the Federal Reserve Board would require the Federal Reserve Bank of Minneapolis to rediscount some of that paper for New York. There is a remote possibility of doing that and avoiding the payment of franchise tax, but it has never been done. That is the only thing that comes to mind.

Mr. BRAND. This is not germane exactly to the present questions before the committee and I will not go into it any further. When, in your opinion—and this question is suggested by my friend to my left—will these 12 Federal reserve banks resume paying any franchise tax, if ever?

Governor YOUNG. That would be extremely difficult to answer, Mr. Congressman. If we should have a repetition of what we had in 1919 and 1920, when borrowings were very heavy and profits large, those surpluses would be built up very quickly. If, on the other hand, we should run into an easy money period for the next four or five years, it might be difficult for the reserve banks even to earn the 6 per cent dividends. I could not answer that.

Mr. BRAND. Well, I will proceed with my regular questions on the issue that is now before the committee.

I want to ask you, Governor, what is the chief evil, if you admit there is any, to the present system of banking under existing law, which would appeal to Congress to take into consideration the advisability of making a change?

Governor YOUNG. I would say, first, too many banks.

Second, that group systems have developed which may be good and which may be bad; but, in my opinion, the branch system within trade areas, if you can define that, would be better than the group or chain systems.

Third, I think examination and surveillance have improved tremendously in the last 8 or 10 years. I think there is a possibility for further improvement along that line.

Fourth, if it were possible, I should like to see more banks supporting the Federal reserve system.

Mr. BRAND. Would it interrupt you there to ask this question: What benefit is it to a member bank—a bank of the Federal reserve system which does not have any occasion to borrow any money from its correspondents and does not have any occasion to discount any eligible paper with the Federal reserve bank—to remain a member of the Federal reserve system?

Governor YOUNG. The main advantage in my opinion is that that bank which you describe is contributing to a system which I believe has been of tremendous benefit to the business, agricultural, and commercial interests of the country, and that banker has to look to an indirect benefit more than a direct benefit.

Mr. BRAND. How will it benefit such a bank, for instance, when it receives no interest on its daily balances or for the use of its reserve fund, and not borrowing any money or discounting any paper——

Governor YOUNG. I think it is an insurance, Mr. Congressman, and the day will come when it will have to borrow some money.

Mr. BRAND. When that time comes he can get back into the system, if that necessity arises and he has withdrawn from the system.

Governor YOUNG. I am inclined to agree with you that, under ordinary circumstances a nonmember bank can not operate without contributing. However, that is an opportunity that every member bank has the same as the nonmember bank, and if all banks of the United States should arrive at the same conclusions, we would have no Federal reserve system, and I do not think that anyone wants that.

Mr. BRAND. Now, in answer to the first question, you gave different reasons which account for the evil in the present existing law. Are you prepared, at this time, to suggest any remedy by way of proposed legislation or otherwise to correct this evil?

Governor YOUNG. I am not, but I expect that the Federal Reserve Board will be in a position to do so at a later date.

Mr. BRAND. Governor, what, in your judgment, is the motive or real reason why these large banks are merging, such as occurred in New York a week or two ago, and the Fourth National Bank and the Atlanta & Lowry National Bank of Atlanta merging into the First National Bank of Atlanta a few months ago?

Governor YOUNG. We have become a great commercial nation and a great factor in international finance, and larger units are required to conduct that business.

Mr. BRAND. Is it not true that such mergers and consolidations of these large banks tend to monopolize capital and credit?

Governor YOUNG. I have repeatedly said before the committee that I thought that was a possibility but highly improbable and I am still of that opinion.

Mr. BRAND. Are not such consolidations as I have referred to prima facie evidence that these mergers will give to the consolidating banks greater control over capital and credit?

Governor YOUNG. Well, if there was just one developing, there might be some strength to your statement, but there are many of them developing.

Mr. BRAND. Many consolidations?

Governor YOUNG. Yes.

Mr. BRAND. Does not that increase the tendency to give a monopoly upon capital?

Governor YOUNG. I do not think so. I would say that the competition is just as strong to-day as it ever was and just as keen.

Mr. BRAND. What sort of competition do you refer to?

Governor YOUNG. For banking business.

Mr. BRAND. Do the mergers of these great banking institutions meet with the approval of the general business interests of the country at large?

Governor YOUNG. Any reply I make, Mr. Congressman, would have to be an assumption.

Mr. BRAND. It would be your opinion, I take it.

Governor YOUNG. These banks are owned by the public as stockholders. Many of them represent the business interests of the country, and if they consent to the consolidation or the merger or the grouping, I think it is fair for me to assume that the business interests of the country do approve of it.

Mr. BRAND. Of course, if they consent. That is the crux of the question. Are the general business interests throughout the country approving, in your judgment, the great consolidations that are going along all over the country in the great centers?

Governor YOUNG. I do not know, Mr. Congressman. Certainly those that are stockholders have consented.

Mr. BRAND. I am not talking about the stockholders. They are part of the banks and they are in this business of consolidating. I am talking about the business interests of the country that have no stock in the banks and have no connection in a financial way with the banks except possibly a desire to borrow money.

Governor YOUNG. I can not answer that, Mr. Congressman.

Mr. BRAND. I will ask you this question, in which I am very much interested: Are not such consolidations and mergers particularly antagonistic to the agricultural States and the agricultural classes in these States?

Governor YOUNG. I do not think so.

Mr. BRAND. Will not the effect of such mergers force the agricultural States to adopt branch banking, notwithstanding such States are opposed to universal branch banking?

Governor YOUNG. I think so. I do not like the word "force." I think, as time goes on, the rural communities and agricultural communities will learn some of the advantages of branch banking.

Mr. BRAND. As a general proposition does this—pardon me if I interrupted you.

Governor YOUNG. No; go ahead.

Mr. BRAND. As a general proposition, does this merger proceeding going on throughout the country meet with the approval of the Federal Reserve Board?

Governor YOUNG. When I first appeared before the committee I read a statement to the committee. The sum and substance of that letter was that the board wanted more time to investigate it.

Mr. BRAND. I did not hear your answer.

Governor YOUNG. The board wanted more time to investigate the whole general question of group, chain, and branch banking before they made any commitments. That was also a statement of my own and anything I might say before the committee would be a rather impulsive conclusion. I would prefer to have more time to study the problems.

The CHAIRMAN. Would you allow me to ask a question there, Judge Brand?

Mr. BRAND. Yes.

The CHAIRMAN. In connection with this consolidation and concentration of assets the movement is pretty fast now. Is the board concerned about that development?

Governor YOUNG. It is extremely hard for me to speak for my colleagues, but obviously, when they are arranging for an extensive investigation and study of the whole question, they are at least interested in the subject if not concerned.

The CHAIRMAN. Supposing that study should take a period of one or two years. Might it not happen that the consolidation and the full plan of the men aggressively at work now may be entirely completed before that determination is made?

Governor YOUNG. Well, the figures I presented here the other day show that it is pretty well completed now.

Mr. BRAND. Does the Comptroller of the Currency consult with the Federal Reserve Board before giving his approval of these large banks consolidating into one large institution?

Governor YOUNG. I will have to refer to Mr. Wyatt as to the legal status of that. Not as a matter of statutory procedure, Mr. Congressman. He has frequently discussed with me as to what consolidations were taking place. There is nothing in the law that requires him to consult with the Federal Reserve Board.

Mr. BRAND. I know that, but I did not know, as a matter of fact, whether he consulted with you or not.

Governor YOUNG. My relations are very close with the Comptroller of the Currency.

Mr. BRAND. I am very fond of him, too, but when you come to dealing with such propositions as the great mergers going on in New York and the great one in Atlanta, so far as we are concerned, it might not be out of place for him to consult you and other members of the board. I do not criticise him for doing or not doing so, however.

Governor YOUNG. Congressman, all of those consolidations and mergers are reported to the Federal Reserve Board, and inasmuch as we have no authority in the matter, we simply note them.

Mr. BRAND. In your judgment, should Congress take any action by appropriate legislation seeking to check such mergers, or is that one of the questions you have under advisement?

Governor YOUNG. That is one of the questions we are considering.

Mr. BRAND. Along the same line—I wrote down these questions two weeks ago but did not get an opportunity to interrogate you sooner—should Congress take any action by appropriate legislation to give the Comptroller of the Currency authority, in his approval, when he gives it, of such mergers, to impose some limitation upon such mergers? It may be that the answer to that is now being considered likewise.

Governor YOUNG. Yes; we are considering that.

Mr. BRAND. Under your construction of the Federal reserve act, has the Comptroller of the Currency or the Federal Reserve Board any right or authority to impose any limitations upon such consolidations at the present time?

Governor YOUNG. The Comptroller of the Currency, so Mr. Awalt informs me, has the authority to approve or disapprove these mergers and consolidations. The Federal Reserve Board has nothing to do with it in so far as national banks are concerned. We do, however, have the authority to approve or disapprove them in so far as State member banks are concerned.

Mr. BRAND. Yes; I knew that the comptroller had authority to approve or disapprove, but I did not know whether, under the act

creating the Federal Reserve Board, or in any other act of Congress, he had authority to put any conditions or limitations upon his approval.

Governor YOUNG. If he disapproved, he would put a limitation upon it.

Mr. BRAND. That, of course, would be the end of it. They would not merge. Could he say, for instance, "I am going to allow you to consolidate these institutions, provided it is done in certain areas or sections of the country or by imposing certain capital requirements, etc.?" I am wondering if he has any authority, under existing law, to put any conditions on his approval?

Governor YOUNG. Are you speaking now about chains?

Mr. BRAND. I am speaking about approving the mergers of large banks—the consolidations in great centers of capital of different banks, like the First National and the Chase, of New York, recently, and the two banks in Atlanta.

Governor YOUNG. We term that as a merger, and he has no authority, if I understand the law correctly, except approval or disapproval. May Mr. Awalt answer that?

Mr. BRAND. Yes.

Mr. AWALT. Judge Brand, under the law, the comptroller is given the right to approve or disapprove.

Mr. BRAND. Yes.

Mr. AWALT. Now, before he approves, he can say to these banks, "You must do so and so before I will give approval to this consolidation." So, while the law does not specifically state that he can put some limitations on it in the consolidation, they have to meet his approval. In order to do that, of course, certain conditions have to be met. Does that answer your question?

Mr. BRAND. That is a more concrete answer to it. He has the right to impose certain conditions on it?

Mr. AWALT. Before they consolidate, but not after it. The law sets down certain conditions, of course, in itself.

Mr. BRAND. I am going to ask you this question, Governor, which you may take under advisement when considering the other questions which have been submitted to you and which are unanswered, but which later on you will submit answers to:

As governor of the board, do you think it advisable to enact legislation to prevent such consolidations of the banks in the large centers of the country? If not, don't you think it advisable, if the board has no power to prevent such consolidation, that the Federal reserve act ought to be amended so as to give the board authority to impose limitations upon such consolidations?

You need not answer that now unless you are prepared to do so.

Governor YOUNG. I should like to answer that later.

Mr. BRAND. I think the authority ought to be lodged somewhere, in the Comptroller of the Currency or the Federal Reserve Board, to check or put some limitation upon them in the interest of the business world.

Governor YOUNG. Mr. Awalt has just informed me that the Comptroller of the Currency, in his testimony, said that if the branch banking privilege was extended to the national or member banks, in his opinion Congress properly should place some limitation.

Mr. BRAND. I am glad to hear that. I want you to take into consideration, when you are preparing your opinion about the questions already submitted to you, the answer to this question: If nothing is done to prevent such mergers or consolidations of the large banking institutions of the country, won't the inevitable result be that these large banking institutions will absolutely control or put the smaller banks of the country at the mercy of these consolidated banks? In short, if this consolidation or merger of large banks continues, won't it in the end give these banks absolute control and a monopoly of capital and credit throughout the country?

You need not answer those two questions now, but I should like to have you answer them when you are ready to give your opinion to the committee upon other questions propounded to you.

Governor YOUNG. I would like to do that, but I have answered that so many times before the committee, that it is a possibility but not a probability.

Mr. BRAND. I have not had the opportunity to be present at all the hearings, and therefore am probably asking questions which have already been submitted to you by other members of the committee.

Governor YOUNG. I have a stenographic record of that and will be glad to answer that at a later date.

Mr. BEEDY. Would it not be helpful to have the governor explain why he thinks that is a possibility but not a probability?

Mr. BRAND. I did not catch that that was his answer.

Governor YOUNG. I have gotten the idea from the inquiries of the committee that there seems to be a fear 1 unit or 2 units or 3 units will eventually control all of the credit of the United States. The credit of the United States comes largely from the depositors who are great in number and, collectively, represent a tremendous volume of this credit. If those units become so strong, they become a monopoly to the detriment of other depositors and customers, the business being profitable, obviously it will induce many of these depositors and owners of credit to set up other organizations.

I think we will always have competition in credit, regardless of whether it be 26,000 independent units, as it has been, or whether it may be two or three hundred larger units. I just can not conceive of all the credit in the United States, which is owned by the people, being centered in the hands of a few people.

Mr. BRAND. I want to come nearer home. Take Atlanta, for instance, where the Fourth National Bank and the Atlanta & Lowry National Bank merged into the First National Bank, being only one or two banks left in Atlanta outside of their branches: What effect will such merger have upon the individual, and the small country bank borrowers?

Governor YOUNG. The ability of the small country bank to borrow from—

Mr. BRAND. From the merged banks; and the farmer, for instance, who wants to borrow money to make a crop.

Governor YOUNG. Well, let us assume that the organization in Atlanta refused a deserving country bank credit. That country bank would not stop there. The country bank would go to New York or somewhere else.

Mr. BRAND. He might go to New York or somewhere else, but it would be a vain thing to do if he is not known and could not borrow money or get credit elsewhere.

Governor YOUNG. My observation is that the banks are always looking for good customers.

Mr. BRAND. Referring again to the merger of banks in the great cities, what effect will that have on the rate of interest paid to small banks who have deposits with their correspondents in large cities? They only pay 2 or 2½ per cent now. If this reorganization of large banks continues, won't it have the effect to decrease the rate of interest on daily balances?

Governor YOUNG. Not in my opinion. There will be sufficient competition in this country so that if Atlanta gets down too low in its rate it pays the country correspondents, they would seek correspondents elsewhere and get them.

Mr. BRAND. I know that is sound as a general proposition, but suppose the other two banks in Atlanta join with the First National Bank? What would prevent that group from running down the rate of interest they pay their correspondents on daily balances, when the correspondents have no other connections and are known to no other banks in the city or State?

Governor YOUNG. If I were operating a bank in New York and knew of any such condition in the Atlanta district, it would not take me 24 hours to get down there to Atlanta and solicit that business and get it on a profitable basis.

Mr. BRAND. I hope you are right.

What effect will these mergers have on the rate of interest these New York banks, for instance, will charge a bank in Georgia if he wants to borrow some money; in my judgment it will have the effect of making the bank pay a higher rate of interest than now. Is that right in your judgment?

Governor YOUNG. I do not think so. There will still be sufficient competition, Mr. Congressman, to compel those banks, whether in New York or Atlanta, to follow the market and obtain that business on a competitive basis.

Mr. BRAND. Take a country bank, for instance, member of the Federal reserve system, which has been doing business with New York and Atlanta banks, assuming the consolidation of large banks in New York and Atlanta will continue and they should decide to increase their interest rates on loans, what fix would this country bank be in when it has no financial connection with other banks in New York and Atlanta?

Governor YOUNG. You have the simplest solution in the world on that, Mr. Congressman. Go to your Federal reserve bank where you can always get a lower rate than you get from your correspondents.

Mr. BRAND. Suppose you take a bank that does not belong to the Federal reserve system?

Governor YOUNG. That is the strongest argument I have heard for a long time for membership in the Federal reserve system. That is why he should be a member. That is the assurance he will have.

Mr. BRAND. Still, this is forcing the nonmember banks to join the Federal reserve system. This situation compels him from necessity to become a member.

Governor YOUNG. That is proving to him it is advisable for him to go in.

Mr. BRAND. In your judgment?

Governor YOUNG. Yes, sir.

Mr. BRAND. What effect does the increase in the discount rate or a decrease in the discount rate of the Federal reserve banks have on the price of farm commodities?

Governor YOUNG. That is a question that has been before this committee on many occasions.

Mr. BRAND. But I never asked you about it before.

Governor YOUNG. My opinion is that it is a factor and a contributing factor, but not a determining one; in other words, I do not think we could put the price of money down to 2 per cent and arrive at the conclusion that agricultural products are going to increase in price 10 per cent or 20 per cent any more than you could put up the rate to 7 per cent and it will depress agricultural products further than they have been.

Mr. BRAND. How came cotton to go down from 40 to 10 cents a pound, under the deflation policy of 1920, if it does not have that effect?

Governor YOUNG. I will not admit there was a deflation policy in the Federal reserve system in 1920, because I operated a Federal reserve bank in an agricultural section and there was no deflation of credit.

Mr. BRAND. I thought it had become an historic fact all over the world that there was a deflation policy inaugurated in 1920 and that the policy caused a decrease in the price of farm commodities, including cotton.

Governor YOUNG. There was a thorough investigation by a joint committee of the House and Senate in 1922, if I remember correctly, in which the House and Senate did not arrive at that conclusion.

Mr. BRAND. Well, I have great respect for the members of the committee of the House and Senate to which you refer, but I do not agree with them if they reached such a conclusion. I know as a matter of fact that subsequent to the inauguration of this policy, unlike the policy inaugurated after the Civil War, when the people were given a year's advance notice of it, which was suddenly and secretly inaugurated so far as 90 per cent of the world was concerned, cotton which was selling at 40 cents per pound went down to 10 cents per pound, on account of which fact thousands of farmers and hundreds of banks in my State went broke.

Mr. GOLDSBOROUGH. May I ask a question there in order to make a suggestion?

Mr. BRAND. Yes.

Mr. GOLDSBOROUGH. Governor, in 1921, Governor Harding was before this committee and I remember very distinctly he had a large chart over on that side of the room [indicating] and I guess he was asked by different members of this committee twenty times about the deflation in the agricultural districts and he always evaded the question. He never did answer it. He undertook to say that the credit throughout the country was not deflated, but when it came to the specific question regarding the agricultural sections, he would not answer. I was here in the committee and know that is a fact.

Governor YOUNG. I was in an agricultural section—

Mr. BRAND. And it is broke, too, is it not?

Governor YOUNG. And there was lent not less than \$118,000,000, if I remember correctly, in the ninth Federal reserve district, an amount far in excess of what the Federal Reserve Bank of Minneapolis had.

Mr. GOLDSBOROUGH. Is it not a fact that all our leading economists recognized that that deflation policy did take place as far as the agricultural sections were concerned; that they deplored it, but excused it on the ground that it was a very unusual condition; the first time the Federal Reserve Board had been subjected to that condition and they simply used poor judgment. Is not that generally recognized among economists?

Governor YOUNG. Not that I know of, Mr. Congressman. It may be true.

Mr. STEAGALL. That is what they said before this committee. They said the Federal Reserve Board in that period was simply feeling its way in the dark and finding their powers, and the statement was made not in support of the more bitter criticisms indulged against the Federal Reserve Board but, on the contrary, exculpating the board from the purposes so often attributed to them, but clearly insisting that the board did pursue a deflation policy in reference to agriculture.

Mr. BRAND. I know it to be a fact that the people in my district and State clearly understood that a deflation policy had been inaugurated, with the results, so far as our farmers and banks are concerned, as above indicated.

Say January, for instance, before this deflation policy was inaugurated, cotton was selling for 40 cents per pound, and in November thereafter this same cotton, of the same grade, weight, and condition, which was worth as much in November as it was in January, was selling for 10 cents per pound.

Governor YOUNG. In 1920?

Mr. BRAND. The year deflation of prices began. What caused this great reduction in the price of cotton, if not due to the effect of this deflation policy, as I call it and have always called it, right or wrong?

Governor YOUNG. I think the main cause was a buyers' strike throughout the world. The first evidence we had of the deflation was in Japan, where the price of silk became so high there was no consumptive demand for it. That was the first evidence we had of the starting of a world-wide depreciation of products. It did not start in this country.

Mr. BRAND. I remember very well the Georgia National Bank of Athens had cotton warehouse receipts from farmers all over the country. They made the mistake of holding the cotton when it was 40 cents a pound for higher prices and when it got to 10 cents, the Atlanta Federal Reserve Bank and the bank's correspondent in New York called upon the president and directors of that bank to collect their money. When they called for it the farmer had to sell his cotton at this low price, the proceeds of which was not enough to pay his loan, and the consequence was he not only lost his cotton but his farm also, which broke the ordinary farmer and he has been broke ever since.

Mr. STEAGALL. Let me have the witness for a minute, please. This was shown in Omaha, Governor Young, before the committee to which you referred, which I suppose is the same committee: The insistence had been made all along and they brought figures to show there had been no decrease in loans to justify the charge

that a deflation policy had been effected. At Omaha—I forget who the witness was—but at Omaha a witness from the Federal reserve bank in that district brought a chart that showed this: When the seasonal demand for an increase in the loans for crop marketing and the like took place, the figures showed that there had been some increase in loans, but just as the chart showed an increase in loans, it showed a decrease in nonborrowers, clearly demonstrating that the regular borrowers from that Federal reserve bank did not enjoy any of the increase in loans for seasonal demands. The testimony was all to the effect that there was a normal seasonal increase in demands for loans but the banks in the small communities, instead of being able to carry their customers, and furnish additional credit had to collect on their paper. The only way they could collect was by the sale of their farm products and they were being thrown on a constantly falling market. That is what the testimony showed out there.

Mr. WINGO. I ask permission at this point to put that chart in the record.

The CHAIRMAN. Without objection that will be done.

Mr. WINGO. I think I have a copy of it in my files.

(The chart referred to will be reproduced in a later part of these printed hearings.)

Mr. BUSBY. Governor Young, do you know anything of a meeting held here in Washington on May 18, 1920, by the Federal Advisory Council and the class A directors of the Federal Reserve Board with a view to discussing a policy of deflation, that policy being to withdraw from the eligible paper for rediscount certain types of securities? It was not any open public meeting, but in a meeting held with Governor Harding and the type of directors I have mentioned.

Governor YOUNG. I do not think I attended that meeting, but if I remember correctly, that was the meeting referred to many times in the public press in which they had a stenographic record of what was said.

Mr. BUSBY. Where the public was not taken into consideration in the way of giving—

Governor YOUNG. That has been published.

Mr. BUSBY. As a direct result of that meeting and its actions and policies, discussed by it, the deflation policy of 1920 soon followed, and then the break in farm commodity prices Judge Brand referred to was the natural result. Was not that true?

Governor YOUNG. I am not familiar with the meeting, Mr. Congressman. Mr. Wyatt can make a statement in reference to it.

Mr. BUSBY. I do not want to take any more time from Judge Brand.

Mr. STEAGALL. With Judge Brand's permission, I want to ask another question. Regarding the policy of the Federal reserve banks in handling Government bonds carried by member banks—

Governor YOUNG. I can only speak for one district—the ninth Federal reserve district.

Mr. STEAGALL. You know that general situation as regards the market for bonds, and the way the bonds were carried by the banks, do you not?

Governor YOUNG. Well, I think it was optional with the bank to sell or buy. I talked frequently with bankers who paid, I think 5 or 6 per cent to carry the bonds, and they were only yielding 4¼ per

cent, as to whether it was advisable to sell or not. Sometimes they sold, and sometimes they did not.

I ought to make this statement in defense of the board at that time. I was operating the Federal Reserve Bank of Minneapolis, where conditions were very bad. We lent in great volume, lent beyond our own capacity. The New York and other reserve banks in turn lent to us. We took care of the member banks, and the nonmember banks were taken care of by city correspondents. We, in turn, lent the city correspondents to take care of the nonmember banks.

I recall very well coming to Washington at one time and talking with Governor Harding, of the Federal Reserve Board. We had gone up to \$113,000,000, and we were attempting to analyze the situation. At that time we felt we might possibly have to go up to \$150,000,000 or \$175,000,000 to take care of it or attempt to take care of it.

There was no restriction on that bank, never a letter to the Federal reserve bank, and no one ever bothered me in the operation of the Federal Reserve Bank of Minneapolis from 1919 right clear through to the time I left.

Mr. SEIBERLING. May I ask a question there?

Mr. BRAND. Certainly.

Mr. SEIBERLING. Did you not get instructions from the Federal Reserve Board to quit taking automobile accessory paper early in 1921?

Governor YOUNG. Never did; not that I remember.

Mr. SEIBERLING. You do not know that the Atlanta Federal Reserve Bank got such instructions, do you?

Governor YOUNG. No; I do not know. I know that we in Minneapolis did make a very strong plea to some of our member banks to take care of the agricultural interests and avoid some of the unnecessary credit at the time.

Mr. SEIBERLING. It was the opinion of the Federal Reserve Board that the automobile business had gone about as far as the country would stand at that time, was it not?

Governor YOUNG. I would have to check that up, Mr. Congressman.

Mr. SEIBERLING. And since then the automobile business has increased many times beyond what it was then.

Governor YOUNG. I can express my own opinion. Under the conditions that existed in the ninth Federal reserve district, I thought it was best at that time to give more attention to agriculture, to put them in a position so that they could buy the automobiles later. In other words, it was our desire to take care of agriculture first, in preference to anything else.

Mr. BRAND. Governor, the question was asked several years ago of a representative of the Agriculture Department if the Federal reserve banks, acting in conjunction with the Federal Reserve Board, could by the adoption and inauguration of a given policy, cause a decrease or an increase of prices of all farm commodities, and he answered yes.

Governor YOUNG. Who answered that way?

Mr. BRAND. I think it was the Secretary of Agriculture that appeared before this committee several years ago after Governor Harding left the Federal Reserve Board. I asked the question myself.

In other words, do you not think that with cotton, say, selling now at 50 cents a pound and wheat at \$1.50 a bushel the 12 Federal reserve banks and the Federal Reserve Board can get together and agree upon a policy which when promulgated would have the effect of deflating the prices of these farm commodities?

Governor YOUNG. I do not think so. I am going to illustrate that by a specific example. It does not make any difference whether you are operating a Federal reserve bank or a commercial bank; your object is to conduct that institution in such a way that you will not lose money.

Now, this deflation that they speak about occurred in 1920. In 1919 the Federal reserve bank had loaned in the neighborhood of \$90,000,000 in the Northwest. Practically every penny of it depended upon agriculture. Now, would I, as the executive officer of that bank, deliberately go out on any policy or campaign that would destroy the collateral back of the \$90,000,000 I lent? I do not think so.

Mr. BRAND. I do not think you would have done it, but, as a matter of fact, something happened in the country that caused that very effect on farm commodities, and the Federal Reserve Board and the 12 Federal reserve banks constituted the only machinery of the Government that could do it. It seems to me that the conclusion is logical that it was done by the Federal Reserve Board, and if it was done one time by the Federal Reserve Board it could be done again.

Mr. STEAGALL. If I may interrupt, a chart that we had showed this, that the amount of loans in that Federal Reserve district remained substantially the same during the period in which there was a largely increased seasonal demand for credit. There was no increase in loans, but there was a big decrease in nonborrowers, or the list of non borrowing member banks. In other words, the Federal reserve bank in that district had accommodated quite a number of new customers without increasing the amount of money it had out, leading inevitably to the conclusion that instead of increasing the loans to the member banks in the agricultural sections to take care of the seasonal demand, there had necessarily been a decrease in the amount of loans to them, and the only way that could happen would have been for them to have collected out of their farmers in a market where prices were constantly falling and where the only possible effect of calling a loan would be further to depress the price.

That chart showed all of that.

Mr. WINGO. I think the gentleman from Alabama is in error as to what locality the chart covered; I think it was either St. Louis or Kansas City.

Mr. STEAGALL. My recollection is that it was Omaha.

Mr. WINGO. But, anyway, wherever it was, I will put it into the record.

Mr. STEAGALL. This happened in Nebraska; the chairman will remember it.

Mr. BRAND. One other question, and I believe I will conclude.

The Citizens and Southern Bank with which you are very familiar has a branch bank in Athens and others in Atlanta and different cities in the State. There is one other bank there at Athens. Neither one of these banks nor any of the Atlanta banks will lend money on

crop mortgages which I know are very poor security. There is a great section of my district and in Congressman Bell's district where farmers have no money with which to make a crop and they can't borrow it unless the banks lend them money on crop mortgages. We have no branch banking law in the State of Georgia now, but our little bank, the Brand Banking Co. of Laureville, Ga., does make loans to these farmers on crop mortgages.

Now, what is going to become of such farmers if all the banks of my district, say, refused to loan money for the purpose of enabling them to make crops? Many of the small banks in my district and Congressman Bell's district have been lending money on crop mortgages. What is to become of this class of people? What suggestion can you make as an expert witness and as a man who has had considerable experience in all phases of the banking business with respect to what such people should do, and what does the banking system of the United States owe to the farmers of the agricultural sections of the country in the condition indicated by me?

Governor YOUNG. Mr. Congressman, I do not think that I can afford to advocate any program that would take depositors' money and lend it on poor security or poor collateral, as you say these loans are. That condition has happened frequently in the ninth Federal reserve district. It was taken care of by a seed lien loan of the Government on several occasions. It was taken care of in 1927 by a seed lien loan authorized by the Congress, because there was failure to pass the deficiency appropriation bill, with the result that the Government was in the position of having the loans authorized with no money to lend. That situation was handled by those various counties issuing warrants, and those warrants were sold to Minneapolis and St. Paul banks and the proceeds loaned by the counties to the farmers.

Mr. BRAND. Then if that is the only remedy, the banking business does not do the farming class any good in such a case as I have referred to.

Governor YOUNG. I think that they have done a great deal along those lines, to their sorrow in many cases. Surely, Mr. Congressman, you do not want me to advocate that a bank should take a depositor's money—a widow's, if you please—and make a poor loan with it?

Mr. BRAND. Of course not, and that is the first time I have heard the word "depositor" used in all of this investigation. I thought he was lost sight of entirely.

Governor YOUNG. I think he is the man we should give a great deal of attention to.

Mr. BRAND. I think so, too; but I do not think that he is being given enough attention by the Federal reserve banks and the banks that belong to the Federal reserve system or do not belong to it.

I have given you a case where the situation is serious, and it is no hypothetical question. This class of farmers are in a position where they can not farm and cultivate a crop, which they must do if they feed and clothe themselves, their wives, and children, much less educate them, unless a bank loans them money on crop mortgages; and the banks in the large cities will not do this.

In such a case as I have cited, if we should have a good crop—and no one ever knows what it is going to be—the bank which loans money to these people on crop mortgages gets it back, because they

are honest and pay their debts when they can; but if there is not a good crop I concede there is a loss to the bank.

Governor YOUNG. My experience with crop mortgages has been this, that a crop mortgage may be the best security in the world if they get a good crop, but it is the poorest security in the world if they do not get a good crop.

Mr. BRAND. When you are ready to answer the questions propounded to you by myself and other members of the committee, I will thank you, at that time, to answer the following:

(1) Are the people in this section of the State of Georgia—and there are many sections of Georgia in the same condition—receiving the help or assistance they are entitled to at the hands of the present banking system of the United States?

(2) If they are not, what remedy do you suggest to correct this evil?

(3) What system of banking would you suggest would best subserve the interests of the people of this section in the condition they are in as described by me?

(4) Particularly in the counties where banks have all become insolvent, and on account of the distressed condition of the people they are unable to organize a bank, what would you advise to be done in order that such sections of the country may have the benefit of banking facilities?

Now, coming back to the depositor, what have you to suggest? I am not going into the subject of insurance for depositors, because both the Comptroller of the Currency and yourself are opposed to any sort of a guarantee of deposits, and it looks like the whole Treasury Department is.

You have given us your opinion about helping the banks which are members of the Federal reserve system. Taking into consideration that you are opposed to paying any interest on reserve funds in the Federal reserve banks, are you prepared now to state in what manner you would suggest helping the member banks? They are not getting enough out of the system as I see it.

Governor YOUNG. I stated the other day, Mr. Congressman, that the board in its annual report to the Congress of the United States would recommend that more of the earnings of the Federal reserve system be distributed to the member banks, but the method by which that distribution would be made has not yet been arrived at.

Mr. BRAND. Have you any way of helping member banks other than using part of the franchise tax? If not, where are you going to get the money to help?

Governor YOUNG. One suggestion has been made that the amount that goes into surplus be reduced and that what is over that be distributed to the member banks. That is complicated and requires a good deal of study.

Mr. BRAND. I have finished, except for this suggestion, that I would like to have the board confer with the Comptroller of the Currency, the Secretary of the Treasury, and also with Judge Garrett, who once had a plan in mind, the details of which I do not have, and submit to the committee some workable plan to protect depositors or to guarantee deposits. Some sort of deposit guaranty is coming sooner or later. It may not come in your lifetime or mine either, but there

is going to be a revolution in this country unless depositors are given some character of protection against loss.

An amendment along this line was proposed to the original Federal reserve act when the same was before the Finance Committee of the Senate. If the Federal Reserve Board can work out a plan and make some recommendation for legislation giving protection to depositors by way of a guaranty fund or otherwise, without making the strong banks take care of the weak banks, I think it should be done. I think the highest duty you can render to the people of the United States and to the depositors in all of the banks, particularly the small ones in the agricultural States, is to devise such a plan, if you can. I am thinking more about the depositors than I am of the stockholders.

Mr. STEAGALL. Let me ask one or two questions.

Mr. FORT. We had a special order for 12 o'clock.

Mr. STEAGALL. I thought he was through.

Mr. LUCE. Mr. Chairman, I move that we now go into executive session.

Mr. FORT. I second the motion.

The CHAIRMAN. It has been moved and seconded that the committee resolve itself into executive session.

(The question was put, the motion agreed to, and the committee went into executive session.)