Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

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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 8, 1930

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met in the committee room, Capitol, at 11 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. Luce, would you like to question the witness this morning?

Mr. Luce. For a few minutes.

Governor Young, some days ago Mr. Wingo made an observation that interested me much and will furnish a peg on which I may ask some questions of a general nature. He said that he was obliged to pay 10 per cent if he chose to borrow from his local bank. Of course I am referring to it as a typical instance, if I am right in my understanding that interest rates in the West average higher than those in the East.

One of the criticisms made against branch banking is to the effect that it will tend to draw money away from the smaller communities and center it in the metropolis where it will be used for purposes of the stock exchange. This puzzles me. I had understood that the purpose of decentralizing the Federal reserve system or one purpose was to equalize the supply of money throughout the country and to equalize rates on commercial paper.

Will you explain to me how it happens that the cotton factor in Arkansas must pay a higher rate of interest than, say, a potato merchant in northern Maine?

Governor Young. Mr. Congressman, I do not know what the legal rate is in Arkansas, but I assume it is 10 per cent. If that cotton factor is a small operator and depends upon one or two local banks, he might have to pay a 10 per cent rate, although I doubt it. If he was a larger cotton factor, so that he had connections in various parts of the country, he would be in a position to bargain for his money the same as the jobber or wholesaler and he would know where he could get it cheapest, even though he had to go to New York City.

The smaller man would have to pay a higher rate and, to answer your specific inquiry, I think that the State usury laws have more to do with that than any one thing I know of.

I have a list here showing the legal rate of interest and rate by contract in all of the States of the Union. It ranges all the way from a minimum of 6 per cent to a maximum of 12 per cent, and in a few States, any rate.

Mr. LUCE. My difficulty goes beyond that. Twenty years ago it was known that loans on real estate commanded a higher interest in the West than in the East. We had, in the East, formed numerous investment companies for the purpose of taking advantage of that. Then we created the Federal farm system which seems to have equalized the opportunities for all parts of the country. At any rate in the insurance company in which I happen, by chance, to be a director and when I am able to attend a directors' meeting, when the list of loans in the preceding month is read off I notice loans in the Mississippi Valley, Ohio, Missouri, and so forth, at the same rate that is paid for loans in the immediate neighborhood of Boston. That leads me to conclude that the farm loan system has given all parts of the country equal opportunity in a general way.

But am I wrong in my understanding that still the rate for loans on commercial paper in the territory beyond the Mississippi is distinctly higher than it is on the Atlantic seaboard?

Governor YOUNG. From what I have been able to observe, Mr. Congressman, I should say yes.

Mr. LUCE. I am including the South also in my question.

Governor YOUNG. I would say yes, with the exceptions of Virginia, where I think they have a maximum rate of 6 per cent, also North Carolina, Tennessee, and West Virginia.

Mr. LUCE. In those States where the usury law permits high rates, why does not the law of supply and demand operate to bring those rates down? There are large numbers of citizens in the East at the present moment who are seeking opportunity for investing their money at what they have, since the war, commenced to look upon as a fair rate and they can not get it. The money market is so flooded with money for investment that a prudent man will look askance at any offering on which he can earn more than 6 per cent. When money can be loaned in Arkansas and Georgia or anywhere west or south at 10 per cent, why does not capital flow from the East to those places?

Governor YOUNG. It does to a certain extent, Mr. Congressman. We had a very specific illustration of that in December, January, and February of 1929 and 1930. Conditions eased in the New York market first. The surplus funds gradually drifted to the interior. They drifted in this way—and I am going to take a territory I am familiar with no illustrate what I have in mind: Minneapolis has several large grain concerns that are nationally known. They have banking connections in many sections of the country. At times they are very heavy borrowers. They have a very large credit standing so that if they, in a tight money period, should be asked to pay 6 per cent in the Minneapolis district and the New York correspondents offered them 5½ or even 5¾, they would immediately borrow in New York to save that one-quarter per cent over the rate they would have to pay in Minneapolis. That shifts the funds from the larger centers to the smaller centers.

Now, on the other hand, when we have a condition such as we had in January, 1927, and January, 1928, clear through until October of 1929, when the call rate was so high that it attracted funds from the interior to New York, credit has the tendency to a degree to flow where it brings the better rate.

Mr. LUCE. That is what I wanted to bring out, because it seems to me inconsistent with the allegations that the West has to pay more for money than the East. I want to find out whether Maine, New Hampshire, and Vermont are any worse or any better off in that particular than Arkansas, Oklahoma, and Texas?

Governor YOUNG. I think, generally speaking, that the customers through that territory—that is, Maine, Vermont and through there—pay a lower rate——

Mr. LUCE. Why?

Governor YOUNG. Than they do in Minnesota, Montana, and the Dakotas, because the small borrowers—and I refer to the small borrower when I make that statement—has not the opportunity to deal in several sections of the country the same as the large operator has.

Mr. LUCE. You mean that the centers of commerce are far apart?

Governor YOUNG. He is so small that he is not known. For instance, let us take a small community in South Dakota: A farmer who has to borrow $1,000 or $2,000 is known to the local banker and not known to any one else. He can not go to New York, Vermont, or Maine and present his note. No one knows him. Therefore he has to pay the legal rate or contract rate, generally speaking. I have forgotten about South Dakota, but it seems to me the maximum rate is 10 per cent. That is the rate he would probably have to pay to the local bank unless he was well enough known so he could go to a near-by town with a very desirable piece fo paper and drive a bargain, say, for 8 per cent.

Mr. LUCE. His local banker can take his note and send it to Minneapolis, through his correspondent, can he not, and then the correspondent there can rediscount, if he sees fit, with the Federal reserve bank?

Governor YOUNG. If he was dealing with a nonmember bank, the correspondent bank could not discount that with the Federal reserve bank at Minneapolis at the present time, although during the war period and for some time after the war period we did accept notes originating in nonmember banks.

Mr. LUCE. Would that give the note a different standing when it reached Minneapolis from the paper of a member bank? In other words would there be a discrimination in the rate that the Minneapolis bank would impose upon that piece of paper?

Governor YOUNG. Well, if that was a member bank, Mr. Congressman, in all probabilities they would go to the Federal reserve bank rather than their correspondent, because the Federal reserve bank always has a lower rate than the correspondent bank.

Mr. LUCE. Then, it is easy for the paper, ultimately, to reach some place where it gets the standard rate for time loans fixed throughout the country?

Governor YOUNG. For instance, the Minneapolis bank—if the farmer's note bore 8 per cent and it was sent to the Minneapolis Reserve Bank, it would be discounted at 4½ per cent, and if it was 6 per cent it would be discounted at 4½ per cent. We pay no attention to the rate the paper bears.

Mr. LUCE. Then the spread between the final discount rate and the initial rate furnishes the western banker a larger profit than it furnishes the New Hampshire banker, for instance?

Governor YOUNG. Generally speaking, I would say yes.

Mr. LUCE. Now we come to what I mean. Under a branch banking system, would that still prevail? Assume that a bank in Chicago owned branches out in the district of which we are speaking: Would it impose a different rate on a customer in Fargo than it would on a customer in Springfield, Ill.?

Governor YOUNG. I am inclined to think, Mr. Congressman, that it would have a tendency to bring rates down to the borrower and I base that statement on the experience we have had in California where there is a very extensive development of branch banking.

Mr. LUCE. Then the branch-banking system would, if this line of reasoning is correct, directly aid the borrower in the small western town rather than hurt him?

Governor YOUNG. That would be my opinion.

Mr. LUCE. Would you say that the argument is fallacious under those circumstances, which is to the effect that a branch-banking system would tend to drain the aggricultural districts to the benefit of the industrial centers?

Governor YOUNG. I do not believe that it would.

Mr. LUCE. You have brought in usury as an important factor here. I do not quite reconcile that with my general understanding of the flow of capital. If North Carolina has a usury law of 6 per cent and South Carolina has 10 per cent, why does not all the money flow in to South Carolina instead of North Carolina?

Governor YOUNG. Well, I am not familiar——

Mr. LUCE. Oh, well, I am just assuming these quite arbitrary figures. There are throughout the country apparently different usury rates. Why does not the money go where it would get the most profit, to the detriment of places where it is prevented from getting the bigger profits?

Governor YOUNG. Generally speaking, in the larger communities, it does do that, Mr. Congressman.

Mr. LUCE. If it does that, when it gets into that State, does not the law of supply and demand operate? Is there not competition between financial institutions? Do not they level again? I am puzzled by these discriminations between different parts of the country and do not understand why all the water in the reservoir does not seek the same level?

Governor YOUNG. With the larger units and with the people that have national connections, it does. With the smaller communities and the smaller borrowers, it does not to the same degree.

Now, perhaps we can take the intermediate credit bank and illustrate that the smaller borrower does get pretty close to a uniform rate throughout the United States. Yet the intermediate credit bank has not developed to a very large organization. I think the total outstanding amount is $60,000,000. In so far as the intermediate credit banks are concerned, they have leveled those rates to borrowers in various sections of the country.

Mr. LUCE. Can anything be done in the matter of the national banking system to carry still further the purpose of the Government in equalizing opportunities throughout the land?

Governor YOUNG. Well, Mr. Luce, I am not an attorney and I assume that States' rights come into that, but I suspect, that the legal rate and contract rate is too high in any State, it would have to be corrected by the State.

Mr. LUCE. You doubt if any Federal usury law would stand?

Governor YOUNG. I have no right to say that. I am not a lawyer. I do not know.

Mr. LUCE. Yet we do control the national banks?

Governor YOUNG. We do.

Mr. LUCE. And the regulations imposed upon them, without a Federal usury law might stand where the Federal usury law might not stand?

Governor YOUNG. If you did that, Mr. Congressman, would you not put the national banks at such a disadvantage with their competitors, with the State nonmember banks, that they would be prompted to leave the Federal reserve system?

Mr. LUCE. It would seem to me to work the other way. If you say that the national banker shall not charge more than 8 per cent and other banks charge 10 per cent, why does not all the trade go to the national banks?

Governor YOUNG. If they reduced the rate of charge, obviously they would have to reduce the rate they pay depositors to operate as a profitable institution.

Mr. LUCE. They pay next to nothing to their depositors. I get the gorgeous sum of 2 per cent per year and it has to be pretty big to amount to anything and they chop off a lot of that.

Governor YOUNG. In western banks they pay on savings accounts all the way from 3 to 4 per cent.

Mr. LUCE. I am speaking of checking balances. In New York City they look askance at a man who asks interest on a balance of less than $20,000, and when it gets below $15,000 the operators of the bank begin to prod the depositor. I doubt if that end of it would, in that city, be a great factor.

Governor YOUNG. Well, if New York pays 2 per cent and Chicago decides to pay 2½ per cent, obviously the deposits of the people that do business in both places will drift to Chicago.

Mr. LUCE. Well, that is true; but it is hardly——

Governor YOUNG. I have seen instances of that.

Mr. LUCE. It would be the case in big business, but it would hardly be the case in a small community where the bank balance of most of the depositors is not large anyhow.

Governor YOUNG. It applies to the larger communities in the country. That is true.

Mr. LUCE. We are most naturally greatly concerned with the little man. He is the chap who is most unhappy in the present situation, and what we would like to do is to give the little man in Fargo, N. Dak., the same chance as the man in Bangor, Me.

Governor YOUNG. If the competition was keen in Fargo, a good outstanding man would probably get six per cent there.

Mr. LUCE. Would that be true of a man of the same financial status who chances to be a rancher with his nearest banking point a much smaller place than Fargo?

Governor YOUNG. What I have been able to observe of the notes that come to the Federal Reserve Bank of Minneapolis, the farmers, ranchmen, sheepmen, and other are generally above 6 per cent.

Mr. LUCE. Now, that is just what we are aiming at. Why is that so, and can we correct it?

Governor YOUNG. Well, it has been corrected in Virginia by the 6 per cent contract rate.

Mr. LUCE. Is there any agitation in the west for similar usury laws?

Governor YOUNG. I never heard of it. When I first went to Minnesota, the contract rate was 10 per cent. I think about 8 years ago it was reduced to 8 per cent. I think that Montana had a 12 per cent contract rate and that since has been reduced to 10 per cent.

In Michigan, in my own State, the contract rate 30 years ago was 8 per cent and was changed to 7 per cent 30 years ago. There is a general tendency in all States of the Union to reduce the maximum rate.

Mr. LUCE. Would it be a fair conclusion, then, to say to our western friends, rather than lay the blame at Wall Street, they should seek the remedy in their own State legislatures?

Governor YOUNG. If that complaint was being made, I would say yes. That is the quickest way to correct it.

Mr. LUCE. That is all.

The CHAIRMAN. I should like to ask you this question, Governor, in connection with the questions that Mr. Luce has asked:

Referring to the rates of interest paid in these agricultural sections of the country that Mr. Luce referred to in the Northwest, the Middle West, and the South—agricultural sections particularly—the rate of interest paid on deposits in those banks is usually higher than in the eastern cities and States of the east, is it not? My thought goes to some specific cases where the general rate is from 4 to 6 per cent on deposits, whereas in the east we have rates that start with no interest and run up to 4 per cent, as the prevailing rate. In the east, of course, rates to borrowers are lower, whereas in those localities where the banks pay higher rates of interest, the laws of those States also permit higher rates of interest to be charged. I should like to get your general reaction as to what the situation is there, and I would also like to have you express the attitude of the Federal Reserve in regard to the discount of paper by those banks that charge 8 and 10 per cent interest and rediscount with the Federal reserve bank at a lower rate of interest. Is it the policy of the Federal reserve to admonish those people to make a lower rate to borrowers, or what do they do about that?

That is a composite question and you may answer any one or all of the parts in your own way.

Governor YOUNG. You asked three questions. In reply to the first one, I would say that previous to 1922 rates paid by banks in the Western States—and I am thinking of the Ninth Federal Reserve District with which I am familiar—were higher than the rates paid by the banks in the New England and Eastern States. After 1922, however, many of the banks in the West, if not all of them, found that they were paying an interest rate to depositors that was too high to permit them to make a profit on the rates that they were receiving, with the result that there was a general movement in the Northwest from 1922 clear through to 1927, to reduce the interest rate paid to depositors, so that, generally speaking, throughout the Northwest the rate was 3, 3½, and, in no cases that I recall, in excess of 4 per cent, and, while I may be mistaken, I should be inclined to say that the rates paid in the West now are just about the same as those paid in the East, although I have been informed that some mutual savings banks in the East pay as high as 4½ per cent. They, of course, do not deal with commercial borrowers. Their money is invested almost entirely in bonds and mortgages.

The CHAIRMAN. Is that true in respect to the past two years? Do not the savings banks go in for investments and brokers' loans and various other investments that exist?

Governor YOUNG. I am not familiar with the law, but I am of the opinion that the law prohibits savings banks from taking collateral loans.

Mr. LUCE. That is true, but they do it indirectly through their connections with national banks and, in my own State, I think the banks are paying 5 per cent.

Governor YOUNG. I think I am safe in saying that there is not a bank in the ninth Federal reserve district that pays 5 per cent on savings accounts.

Mr. LUCE. I may be inaccurate about that.

Governor YOUNG. I doubt if any bank pays in excess of 4 per cent.

Mr. LUCE. I may be mistaken, but I am sure that until a short time ago 5 per cent was paid.

The CHAIRMAN. Has the Federal Reserve Board an opinion in regard to rediscounting paper that draws 6 per cent or above in rates of interest?

Governor YOUNG. None whatever.

The CHAIRMAN. You do not admonish those banks that are charging excessive rates to borrowers?

Governor YOUNG. We never have.

The CHAIRMAN. You feel that is not part of your function, inasmuch as the State laws permit it?

Governor YOUNG. That is correct.

The CHAIRMAN. What is your opinion of these State laws permitting higher rates of interest in those localities? Do you think it is justified?

Governor YOUNG. Well, if they were not justified, Mr. Chairman, it seems to me the people of the States would repeal the laws. The conditions and circumstances as to hazard, and so forth, are all factors that must be taken into consideration in establishing a maximum contract rate. As I explained before, over the past 30 years there has been a tendency downward, and in no case that I know of has the rate ever been raised.

The CHAIRMAN. Of course the continuance of those laws permitting higher rates of interest, tends to sustain that policy?

Governor YOUNG. That is true.

Now, in so far as the reserve bank is concerned, when a bank borrows from a Federal reserve bank, we usually satisfy ourselves that the request is justifiable and, while the banks were in our debt heavily in 1920, in 1921, and 1922, since 1923 the requirements have been seasonal, rather than continuous borrowing, lasting for a period of from three to six months, and, by tradition, the banks object to borrowing continuously. I do not know of any evidences at all of where banks have deliberately borrowed, for profit, in the last seven or eight years.

The CHAIRMAN. Has it been your observation in those sections that the change in the Federal Reserve discount rate affects the rate of interest charged their borrowers?

Governor YOUNG. We are told by member banks that it does; in other words, when we reduce our discount rate they say they have a demand from their customers for a lower rate because of the lower Federal discount rate. We are told also by the borrowers that when we raise the rate, that gives the member banks a stronger argument for charging the customers more.

The CHAIRMAN. Whether borrowing from the Federal Reserve bank or rediscounting?

Governor YOUNG. It works both ways. The discount rate of the Federal reserve bank is used by the lender and also by the borrower as an argument.

The CHAIRMAN. Mr. Beedy.

Mr. BEEDY. Governor Young, other things being equal, money does generally flow into that market where the greatest return may be immediately realized, does it not?

Governor YOUNG. Generally speaking, yes.

Mr. BEEDY. As suggested by Mr. Luce's questions—I think he asked you why, we will say, in the State of Arkansas, with the State law permitting a charge of 10 per cent interest and the State law of Maine permitting 6 per cent—why does not the money flow into Arkansas? Of course the rate of interest alone would not influence the flow of money, would it? There must be coupled with it such a measure of industrial activity, with an incidental demand for the use of money which, coupled with the rate, would influence the flow?

Governor YOUNG. Many factors would influence it.

Mr. BEEDY. And is it not probably true in these States where people do not revolt against the higher legalized rate of interest that fundamental conditions justify it? For example, in the Western States where they have not reached the high state of development which we have attained here in the East, loans to the small borrower are more hazardous, in the main, are they not?

Governor YOUNG. Well, I am not going to put it quite that way, Mr. Congressman. I think that the smaller loan requires more attention and more inspection and, obviously, if you lend $500 to a farmer on a chattel mortgage, the inspection requires as much labor as a $2,000 loan. Generally speaking, the expense of the inspection of chattel loans runs about 1½ per cent.

Mr. BEEDY. A banker, when applied to for a loan by an established business concern, with large assets, in a highly developed community, would naturally be influenced by the attraction of such a loan as against a loan sought by a small concern just getting under way in a new territory where the development and growth were problematical?

Governor YOUNG. Obviously so. We have very specific evidence of that in commercial paper, bankers' bills, and so forth.

Mr. BEEDY. Is that not one of the reasons why there is a difference in the legalized rate in the different States and sections of the country in the rate customarily charged by banks?

Governor YOUNG. That is one of the reasons; yes, sir.

Mr. WINGO. I think both of you gentlemen are speaking without experience in that 10 per cent territory. That rate applies to a loan to a Congressman putting up Government bonds as security, so that there is not any risk.

Mr. BEEDY. I could make the retort courteous, but I do not care to enter into any discussion about that. Personally what I am trying to bring out are the fundamental underlying conditions which justify the institution of different interest rates and justify their maintenance. They are such as the governor has said obtain and he is not without experience, as I understand it, in the western country.

Mr. WINGO. He is from the Northwest. I do not think they have a 10 per cent rate there.

Governor YOUNG. South Dakota permits 10 per cent and Montana 10 per cent; Minnesota 8 per cent and North Dakota 9 per cent. Those notes that I have seen out there would average, I would say, between 7 and 8 per cent.

Mr. WINGO. What I want to suggest to the gentleman from Maine is that the reason for this has been studied by practical bankers in that territory and it is unanimously agreed that the two major reasons for the higher rates are the law of supply and demand and the other is the expense of doing business and the necessity of making expenses and a profit for the stockholders. Those are the two major factors. I think the governor will agree with that.

That enters into the contention with respect to branch banks, that because of the expense of doing business——

Mr. BEEDY. And I suppose the element of risk and hazard is equally important in connection with the maintenance of laws authorizing different rates.

Mr. WINGO. Of course the element of hazard has something to do with that in that territory, but my general contention has been that the rate is the same. I mean if you walk up to a bank that is maintaining a 10 per cent rate and put up $10,000 worth of Government bonds to cover a $500 loan, you would still be charged 10 per cent. There is no risk involved there.

Governor YOUNG. Where would they charge that?

Mr. WINGO. In any of the Southwestern States.

Governor YOUNG. I do not see why a borrower would pay 10 per cent on a note secured by Government bonds.

Mr. BEEDY. Governor Young, you have testified that the fundamental and underlying differences in conditions justify, for the most part, the variation in rates of interest which are charged, and probably justify the continuance of State laws permitting those differences in rates.

Governor YOUNG. In a general way; yes.

Mr. BEEDY. Exactly. In other words, the banker in Maine is no more humanitarian than the banker in Arkansas; the banker in Arkansas is just as decent a fellow as the banker in Maine; he does not arbitrarily rob his borrowers of that difference between 8 and 10 per cent as against the rate of the humanitarian banker in Maine who will take 6 per cent?

Governor YOUNG. I do not think so.

Mr. BEEDY. One other thing has been gone into here. It is the fixing of the call loan rate in New York and the effect that call loan rates has on the credit situation in general. If no one objects to it, I should like to have five minutes on it.

We got to the point, in questions by Mr. Seiberling, Governor Young, where you said, in order for the price of securities to keep on ascending, there must be a continuous supply of money to make it possible, and the higher the call loan rate goes the more attractive becomes the money market in New York and the more money from the more distant places bgeins to flow in.

Now, do you think it is a good thing for call loan rates to go on pyramiding until there comes such a strain on the credit situation that ordinary borrowers engaged in legitimate business can not get money?

Governor YOUNG. I do not.

Mr. BEEDY. I did not understand why you do not think it is wise to limit the call money market rate, we will say, at 6 per cent?

Governor YOUNG. I am not hesitating to be evasive; I am trying to follow this along. I have referred to Doctor Goldenweiser a little, all of which I assume is agreeable to you.

Mr. BEEDY. Certainly.

Governor YOUNG. If there is anything in the theory at all that a higher rate has a restraint on a condition of that kind, obviously the 6 per cent rate from the experience I have had, would not be a restraint. It appeared for a long while that the higher rates of 10, 12, and 14 per cent did not have a restraint because the market kept continuing even under those conditions, but——

Mr. BEEDY. May I interrupt you? You and I are thinking at cross purposes. Far from being a restraint, it is an encouragement. It is an inducement to a further continuation of the bad condition—a concededly bad situation. The higher you raise your rates, the more you induce the flow of money to that particular center and the more you accentuate the movement which multiplies the possibilities for evil consequences.

Governor YOUNG. On the other hand, the more the speculator is penalized and obviously no man could continue indefinitely with such rates as 14 per cent and 15 per cent and expect to get a profit out of his speculative transactions. Eventually the interest that he pays would eliminate any appreciation in the value of his securities.

Now, under a 6 per cent rate, that restraint would not have been there and while I will have to admit that, for a long period it seemed as if the higher rates did not have an effect on speculation, obviously, in the last analysis, they did have some effect and were a contributing factor in controlling that situation.

Mr. BEEDY. During that time, when the rates were mounting in the call money market, the Federal Reserve Board in October—was it October when you sent your letter of warning?

Governor YOUNG. February.

Mr. BEEDY. February of this year?

Governor YOUNG. February of 1929.

Mr. BEEDY. February 1929?

Governor YOUNG. Yes. It was February 6 or 7. I have forgotten which.

Mr. BEEDY. You sent out your first letter of warning and from then on it was the policy of the board to do what it could to curb further extension of credit, was it not?

Governor YOUNG. Correct.

Mr. BEEDY. Now, the late Governor Strong, governor of the New York bank, testified a year or two ago that from the time the Federal Reserve Board began to increase its rediscount rate or decrease it, according to the results it hoped thereby to assist at least in attaining, a period of about six months elapsed before the first consequences of that step begin to be observed. Would you agree with that statement?

Governor YOUNG. Well, the period would be different—and I am just trying to think of the last period. The Federal reserve system started a firming-up policy about in November, 1927. That would bring it up to April. I should say that it was just about six months before any effects were seen.

Mr. BEEDY. His testimony was that as he looked back over the operations of the Federal reserve system, it had taken about six months for the machinery to turn out results.

Your letter of warning started in February. That would bring us up, if that six months' period obtained, into August. The call money rate, in the meantime, was firming up. Do you recall what the call money rate of August, 1929, was?

Governor YOUNG. I think the call money rate had dropped a bit by August. It had dropped somewhat. It was 8¾ at that time—the average rate.

Mr. BEEDY. That is a fairly high call money rate, is it not? It is more than twice the present call money rate.

Governor YOUNG. It is very high.

Mr. BEEDY. From that time on how did the call money rate stand?

Governor YOUNG. The call money rate, on an average——

Mr. BEEDY. From then on up to October, when the crash or break came?

Governor YOUNG. I find I was mistaken in my statement. The call rate was—it dropped down to as low as 7½ per cent—but at the beginning of August it was pretty close to 10 per cent on an average. Toward the end of the month it dropped to 8 per cent and at the time of the crash in the stock market the call rate was about 6 per cent.

Mr. BEEDY. In other words, in August a 10 per cent rate prevailed in the call money market?

Governor YOUNG. In the early part of August.

Mr. BEEDY. In other words, in about six months from the February warning, your call money market rate had gone up to a point higher than that which obtained when the crash itself came?

Governor YOUNG. That is correct.

Mr. BEEDY. Of course that rate fluctuated during the months of June, July, and August to the extent of 1 or 2 per cent according as money flowed in from, we will say, places where it had been theretofore unattracted by the call money rate or for some other reason which, for the moment, increased the supply of available funds in New York City?

Governor YOUNG. Correct. The highest average was in April or May of that year.

Mr. BEEDY. Between February and August, 1929, the Federal Reserve Board was finding that legitimate borrowers were not able to be accommodated to meet demands of industry, were they not?

Governor YOUNG. We had complaints in reference to that. We investigated through many sources and felt that in the great majority of cases business was being taken care of.

Mr. BEEDY. I am surprised at that because I understood the position of the board to be that the fundamental justification for their February warning was the failure of the legitimate borrower, the man engaged in industry, to be accommodated.

Governor YOUNG. I think the warning specifically stated that they anticipated that it might develop to a point where it would be a deterrent to business. I do not think they took the position that it had been a deterrent up to February.

Mr. BEEDY. Probably I am wrong but you say you investigated the rumor. How did you investigate that rumor? I am now referring to the rumor that legitimate borrowers were not being accommodated between February and August of 1929?

Governor YOUNG. I dispatched a telegram—I do not know whether it was just at that time or some time before that—to all the Federal reserve banks to make a careful inquiry in their own territory as to whether business was being denied credit and whether high rates were a real deterrent to business at that time, and if I remember correctly, the replies we got back were that up to that time it had not operated as a deterrent to business, although rates were higher.

Mr. BEEDY. If the call money rate had not mounted to 20 per cent, do you believe there would have been anywhere near the amount of money available in New York City for the purchase of securities that was available?

Governor YOUNG. I think so. That was a world market and I believe that they could have gone across the water and borrowed the money in a circuitous way and then transferred the funds here and handled the situation in that way. International finance naturally enters into the call loan rate.

Mr. BEEDY. Exactly. They could have gone abroad and borrowed it, if what?

Governor YOUNG. If the lenders across the water were willing to lend, as they apparently were.

Mr. BEEDY. I am asking you to keep in mind the call money rate as a factor in the situation?

Governor YOUNG. Suppose they could not make a loan of that kind in New York City. There would be nothing to prohibit their making the loan in London or Paris or elsewhere. They could go all over the world to get that money and would have gone.

Mr. BEEDY. Suppose some one had the power to pass a law or had passed a law which held the call-loan rate at 6 per cent in New York City and money would not as easily have flown into New York City, yet you say that, granted a sufficiently strong combination of capital, so minded, they might have gone across the water and made a deal to get capital further to boost prices in this country?

Governor YOUNG. They might have.

Mr. BEEDY. That, of course, would depend on whether there was surplus funds available in foreign countries?

Governor YOUNG. Or even in this country. Our own funds could be sent to those countries and loaned there and transferred back here.

Mr. BEEDY. It would be possible only when business itself in the various sections of the country was not developing to such an extent that the demands for further credit absorbed the available funds in the various localities?

Governor YOUNG. That was a tremendous volume, Mr. Congressman, as shown by the brokers' loans for others which aggregated in the neighborhood of four or five billions of dollars, I think—four billion at the maximum.

Mr. BEEDY. Assuming that the call rate could never go above 6 per cent and assuming there are no available funds abroad. Before a bull market can be continued with profit to the operators in that market, there must be a decline in business throughout the country generally and a let-up in the demands for credit generally by legitimate borrowers before they can go out with a rate of 6 per cent and induce further capital to come to New York?

Governor YOUNG. There is an old saying that if the rate is high enough, it will draw gold out of the ground, and it will.

Mr. BEEDY. That is why I asked you if you do not think it would be highly desirable for some legislative body, having the power, to limit the call loan rate?

Governor YOUNG. No; I do not think so. I think that if there is another bull movement started in the country and the speculators are so ambitious for funds that they are willing to pay the rates they paid before, that that credit would be produced in some way—some circuitous way.

Mr. BEEDY. But I say if industry absorbed all available funds in the various localities of the country and the world, where would you get money unless you had some higher rate as an inducement?

Governor YOUNG. Well, I suspect somebody would manufacture some credit.

Mr. BEEDY. Governor, as a matter of logic, if business is demanding credit—if business is on the upswing and is demanding credit which takes up the available funds of banks throughout the country and the bankers are loaning their money and getting their 6 per cent return, and they can not get 7 per cent in New York City under the call loan rate, they are going to loan their money at home, are they not?

Governor YOUNG. The first procedure they follow is to buy bankers' bills and Government bonds and anything that offers the best yield and the best possibility of profit.

Mr. BEEDY. But they will not go away from home when they can use their money there and get 6 per cent when, to go away, it will not yield them any more than 6 per cent, no matter what they buy?

Governor YOUNG. Business would not get the 6 per cent rate locally. They would get what the local bankers would pay, which would be probably 2 or 3 per cent.

Mr. BEEDY. Why, business men can not borrow money at 2 or 3 per cent.

Governor. YOUNG. You are speaking about the borrower?

Mr. BEEDY. Yes.

Governor YOUNG. I thought you were speaking about the lender.

Mr. BEEDY. As long as borrowers can take money from their local banks in order to satisfy the needs of their business at 6 per cent, those banks would rather lend it at home?

Governor YOUNG. That has been my observation. They take care of the local industries first.

Mr. BEEDY. If they can get 8 per cent in New York, it is human nature they would divide up—fairly equitable perhaps—some of the money at home to meet the local needs and skimp out a little to send to New York to make more profit out of the call money rate?

Governor. YOUNG. The bankers deny that.

Mr. BEEDY. Oh, well——

Governor YOUNG. I think it was done to a certain extent, but not in large volume.

Mr. BEEDY. From your experience, do you think there is a banker in the country that would not try to take a little of his money and send it to New York where he can get, on perfectly good security, 8 per cent, rather than lend it all out at home at 6 per cent?

Governor YOUNG. No; my observation among the bankers in the interior of the country was that they continued to lend at home money on which they could get much more interest by sending it to New York.

Mr. BEEDY. What about the small banks?

Governor YOUNG. Some of the small banks lent their surplus funds, as well as the large banks.

Mr. BEEDY. Would they lend as much of their surplus funds when the rate is 20 per cent as they would if it stays at 6 per cent?

Governor YOUNG. No; not as much.

Mr. BEEDY. It would be a pretty good idea, then, to have somebody limit the call money rate on the ground that the human tendency would be not to make it as easy to bull the prices of securities as would otherwise obtain, would it not?

Governor YOUNG. There are so many other factors you have to take into consideration, Mr. Congressman, that I believe that the factor that you stress so much is insignificant in comparison with the others.

Mr. BEEDY. We can not take them all into consideration. We have to deal with them one at a time, but this factor has some influence.

Governor YOUNG. It has some.

Mr. BEEDY. And I say, would it not be a wise thing to start in with this one factor which has a tendency to induce a flow of money in great quantities to a single center, when we are on the upward swing, by limiting the returns which can be realized by sending funds to such center?

Governor YOUNG. I do not see how you can do that, Mr. Congressman.

Mr. BEEDY. Possibly we can not, but waiving that for the moment, I am trying to get an answer as to whether or not it would be a wise thing to take that one factor and deal with it in such a way as would have a tendency to be helpful and prevent these wide swings in prices.

Governor YOUNG. Mr. Congressman, I could not answer yes to an inquiry that I do not see a solution of.

The CHAIRMAN. May I make an observation here, Mr. Beedy?

Mr. BEEDY. I do not want to be swung off this line of thought.

The CHAIRMAN. You will not be swung away from your line of thought. I simply want to observe, because of this situation in regard to high rates in New York City during the period you referred to here, that it was necessary for Pennsylvania to change its usury laws in order to hold funds in Pennsylvania that were flowing into New York; in other words, the banks of Philadelphia felt they should have the same right to lend money at the rates New York had to protect their own funds in Philadelphia; otherwise they were being sucked into New York on account of the high rates there.

Governor YOUNG. That was true also of Illinois. But meanwhile those banks maintained a 6 per cent rate to business.

The CHAIRMAN. I do not know as to that.

Governor YOUNG. But I do.

The CHAIRMAN. They are not in the habit, I know, of sending money into New York, when they can hold it and get the same rates at home, but the situation did arise where they changed the usury laws in Pennsylvania so as to conform to the laws in New York whereas, if New York had a law such as Pennsylvania, the rate would have been held down to 6 per cent.

Mr. BEEDY. You have answered my question partly when you say, of course, if we make the rate of return on money high enough it will drag gold dollars right out of the earth.

Following that thought, brokers' loans advanced from, we will say, the spring of 1929 from between four and five billion dollars to right around—what did they go up to in August, 1929?

Mr. GOLDENWEISER. The peak was $6,900,000,000.

Mr. BEEDY. What month was that?

Mr. GOLDENWEISER. October.

Mr. BEEDY. What were they in the spring of 1929?

Governor YOUNG. $5,400,000,000, approximately.

Mr. BEEDY. So, in six months, they went over a billion and a half dollars. Would that be an accurate statement?

Governor YOUNG. About a billion and a half.

Mr. BEEDY. Where did that money come from?

Governor YOUNG. From all over the world, in my opinion.

Mr. BEEDY. You think the call money rate had anything to do with it at all?

Governor YOUNG. The call loan rate had a great deal to do with it—the high rates—up to, say, September, when the rates were frequently above 10 per cent, but there was a tremendous increase in those brokers' loans even after the rate went down.

Mr. BEEDY. Exactly, because by the mere change in the rates, you can not cause the business world to readjust itself in a moment. It takes approximately six months for the tangible results to be evident to the ordinary person and even to the banker himself. That continued increase in brokers' loans and the attendant increase in price of securities was not a good thing, was it?

Governor YOUNG. Not in my opinion.

Mr. BEEDY. You have just said that one of the very considerable factors in the situation was the high rate of interest on call loans. Therefore, does it not follow, as a logical conclusion, that if the call loan rate had been fixed, it would have at least had a tendency to prevent that additional increase of a billion and a half in brokers' loans in a six months' period in 1929?

Governor YOUNG. Not in my opinion. They would have gotten that money from other sources in a circuitous way.

Mr. BEEDY. It would have made it more difficult for them, at least, would it not? Here was the money available in New York City. It was easy to step out of one door and into another and get the money.

Governor YOUNG. I do not think so. I think that is what put the rate up, because money was not available. Certainly the New York banks attempted to check this and if you will take their brokers' loans figures from 1927 clear through to October, 1929, there is very little difference in the amount they lent. It is the fact that they did not lend that forced the borrower to put his bid up so that it invited the entire world to come there with their funds. Generally speaking, Mr. Congressman, there was a tendency upon the part of all banks of the United States to control the situation.

The thing that seriously interferes with any control of it—and I do not know that they could have controlled it—was the so-called bootleg loan of funds coming from some source. If they had not come from one source, they would have come from another and if they had not come directly they would come indirectly. It was the lack of funds that put the rate up.

Mr. Beedy. If you put the rate high enough—or, if you can not put the rates high enough, those funds will not come.

Governor Young. They will come in a circuitous way just as sure as I am sitting here.

Mr. Beedy. They have to be used by somebody, do they not? Money is to be used by some one.

Governor Young. Yes, it has got to be used.

Mr. Beedy. Now, you are going to let the fellow use the money that pays you the most, other things being equal?

Governor Young. Yes.

Mr. Beedy. If you get the call money rate high enough in New York, you will let that fellow in New York use it?

Governor Young. Not all of it.

Mr. Beedy. Well, as much as he can get hold of with safety, and retaining enough to satisfy the local interests at the same time?

Governor Young. Yes, sir, and credit is pyramided. You know that?

Mr. Beedy. That is true.

Governor Young. Those high rates tended to pyramid credit and expand credit. That is the one position the Federal Reserve took. It did not take any position with reference to the prices of securities. It took the position that this considerable expansion of credit for this particular purpose eventually would work to the harm of the business interests of the country, and all their efforts were used to curb that tremendous expansion.

Mr. Beedy. Now, following up this testimony of Governor Strong's, that it takes about six months for the machinery of the Federal Reserve Board to work out results, you began to cut down your rediscount rates in 1929 when?

Governor Young. The first rate reduction was in November, I think. November 1, the New York rate was reduced from 6 to 5 per cent.

Mr. Beedy. And the next reduction was?

Governor Young. November 15, to 4½ per cent.

Mr. Beedy. And the next reduction?

Governor Young. February 7, 4 per cent. The last reduction was March 15, 3½ per cent.

Mr. Beedy. Now, then, along in the middle of this summer, unless the Federal Reserve Board—the latter part of the summer—unless the Federal Reserve Board changes its policy of doing what it can to ease the credit situation, let us see what will happen in the prices of securities.

Governor Young. You are not making an inquiry of me?

Mr. Beedy. No; I say let us see.

The Chairman. Governor, supposing a banker in Fargo, N. Dak. wants to lend some money in the call market in New York. I merely mention Fargo by way of illustration. It might be Memphis or any other part of the United States. What method do they pursue in lending that money?

Governor YOUNG. They wire the New York correspondent to charge their account a certain amount and invest it in call loans.

The CHAIRMAN. There is a limitation to lending money to brokers; that is, an individual or an individual banker, unless they go through a New York bank, can not lend money on the call market?

Governor YOUNG. What is that, Mr. Chairman?

The CHAIRMAN. A bank in Fargo, N. Dak., can not lend money on the call market without going through a New York bank?

Governor YOUNG. It is a matter of procedure and not law.

The CHAIRMAN. All these brokers' loans have to be made through a New York bank?

Governor YOUNG. That is correct.

The CHAIRMAN. A Chicago banker can not lend money in New York—I am speaking of brokers' loans—without going through a New York bank?

Governor YOUNG. That is the procedure, if I am correctly informed.

The CHAIRMAN. Do I understand this to be a practice which has grown up in recent years—the question of banks throughout the country lending their surplus funds in the New York call loan market? My understanding is that that has developed somewhat in this manner, and I should like to have you check me up on it if I am wrong, that the large New York banks are largely responsible for this development of country bank loans in the call money market and loans for the account of others, through their practice of getting business throughout the country; in other words I have been told that a business concern or a bank that kept, say, $3,000,000 on deposit in New York, would be approached by a New York bank and asked to transfer their account to that bank, and as an inducement to do that, they will say, "We will lend $2,000,000 of that on the call market if you will keep the other million on deposit with us."

Through the operation of that plan they have built up a large clientele and have induced country banks to lend their surplus funds in the call-loan market and have also induced industrial concerns with surplus funds, concerns with attractive and profitable accounts for banks, to do the same thing. This development is due apparently to the large banks going to the small banks and offering the opportunity of lending their money at twice the usual rates in the call-loan market. Do you know anything about that?

Governor YOUNG. I have never had any actual experience with it myself, Mr. Chairman, but I am told that has been the procedure.

Mr. BEEDY. You stated that the call-money rate got to a point where it was no longer profitable or would reach a point where it was no longer profitable to carry the stocks and make money and that, as I understood you to say, contributed to the collapse of the market last fall.

Governor YOUNG. In my opinion it had an effect; yes.

Mr. BEEDY. Was it not rather the fact that, even though a 20 per cent call-money rate obtained, they were not able to get any more money, and so had to stop?

Governor YOUNG. No; the money was always forthcoming from some source.

Mr. BEEDY. Was it still continuing to come when the market broke?

Governor YOUNG. Oh, yes; there was a tremendous increase in broker's loans from July 29 to October 16; they raised almost $800,000,000 in that short period, on rates averaging about 8 per cent, I should say.

Mr. BEEDY. As you say, there are always so many factors in these situations that it is impossible to single out any one and attribute to it a major influence.

Governor YOUNG. That is true.

Mr. BEEDY. But it seems to me, as we look back over the history of the country and see what has happened to the market, that it was not because it was unprofitable to pay 20 per cent and to realize five, six, and eight points in three or four days on a stock that it collapsed, but it was because they could not get any more money.

Governor YOUNG. No; the money was forthcoming.

Mr. STRONG. From where?

Governor YOUNG. I suspect, Mr. Congressman, that when we refer to money we mean credit. Much of it was manufactured.

Mr. WINGO. I either misunderstand Mr. Beedy or the governor on some of the figures that you have been talking about. I have before me your table that you referred to, "Loans to brokers and dealers in securities made by reporting member banks in New York City," and, on October 2—and these figures refer to millions of dollars—there were 6,804; on October 9, 6,713; on October 16, 6,801; on October 23, 6,634; on October 30, 5,538; on October 6, 4,882; on November 13, 4,172; on November 20, 3,587, and so on; and now, commencing with the 1st of October, instead of declining, the peak on October 2 occurred; it was $3,000,000 more on October 2 than on October 16, the other peak, and then it dropped $200,000,000 from the 16th to the 23d, and dropped over a million between the 23d and the 30th.

Governor YOUNG. My statement, Mr. Congressman, is that between June and October there was a tremendous increase in brokers' loans; almost $800,000,000.

Mr. BEEDY. But the collapse did not come between June and October; it came in October, and at that time there was evidently a failure of funds in New York City banks to sustain the market.

Governor YOUNG. That is the point; the funds did come when the crash came; the New York banks stepped right into that situation and took over those brokers' loans as rapidly as they were called. That was the only thing they could do to prevent a widespread panic throughout the world.

Mr. BEEDY. That was not an increase in the supply of money; it was a matter of bookkeeping. In other words, it was changing from brokers' loans to bank loans.

Governor YOUNG. That is correct.

Mr. BEEDY. But they did not have any more money to do it than in the first place; there was not any more money in New York City when they began to cut down brokers' loans and increase their own borrowings.

The CHAIRMAN. And increase their borrowings at the Federal reserve banks.

Mr. BEEDY. And increase their borrowings at the Federal reserve banks. There was not any more money coming in from world sources or from a mysterious source. Either one of two things happened—either somebody somewhere stopped manufacturing credit, or else, as the figures would seem to indicate in the New York banking situation, the available funds either for brokers' loans or for borrowings by banks began to fall off.

Governor YOUNG. The demand began to fall off. The funds were always available there, and that is what that call loan committee does; they fix the rate that will bring those funds, so that there will be no shortage.

Mr. WINGO. Right in that connection, before you get away from that, Mr. Beedy, attention should be directed to those figures that I gave a while ago so as to have the full picture, those figures showing a drop of about a billion dollars; and you should also consider the fact that there was an enormous drop in the value of the stocks and that there was a greater volume of stocks carried, even though it took a billion less, because the general average of stocks dropped very greatly. And I suspect the actual facts were that there was a larger volume of stocks carried. In other words, they took care of them, as the governor states, when the crash came, but it took less dollars in loans to take care of a larger volume of stock.

You catch the point I am making?

Mr. BEEDY. That is a fact.

Mr. Seiberling wanted me to yield to him.

Mr. SEIBERLING. Governor, if your theory is correct that there was always sufficient money in New York, then why did the call money rate go up?

Governor YOUNG. During that period?

Mr. SEIBERLING. Yes.

Governor YOUNG. It went down.

Mr. SEIBERLING. I am talking about prior to that time. Why did the rate on call money go up if they always had sufficient money in New York?

Governor YOUNG. It was the rate that brought it there. For instance, you may have a shortage of $30,000,000 in the call loan situation to-day, and this committee that we were speaking about the other day sizes that situation up. We will say that there is a rate of 4 per cent at the moment, and they figure that a 4½ per cent rate will bring that money in, and they may change it at 11 o'clock, and they are still short and they will raise it to 5 per cent, and that may not bring the money in, and they will raise it to 5½, and, if that does not bring the money in, they will raise it to 6 per cent, and before the close of business that night they will have a rate that will bring that money from some place in the United States by telegraph.

Mr. SEIBERLING. But the call money rate went up because they did not have sufficient call money in New York?

Governor YOUNG. At the time, but the rate always brought the money and credit.

Mr. SEIBERLING. But when they got the rate away up and it still did not bring the money, something had to happen, did it not?

Governor YOUNG. It did bring the money, Mr. Congressman.

Mr. SEIBERLING. But there is a limit to the amount of money you can get even in New York at any call money rate, is there not?

Governor YOUNG. A theoretical limit, yes.

Mr. SEIBERLING. Well, the estimate is that it was $58,000,000,000 that was lost in the stock market crash in paper values. Is that correct?

Governor YOUNG. I have heard estimates much higher than that.

Mr. SEIBERLING. That is as much as all the deposits of all the banks in the country, is it not?

Governor YOUNG. Yes.

Mr. SEIBERLING. So that putting this money in New York is a very serious thing for the country. The banker might continue to carry his old loans, but he would not encourage any new business or enterprises or anything of that kind in dealing with a customer from whom he could not get more than the usury rate in his State when he could lend the money at 15 to 20 per cent in New York, would he?

Governor YOUNG. I think he would.

Mr. SEIBERLING. It is contrary to human nature.

Governor YOUNG. No, I do not think so. If I am running a commercial bank, I am interested in my community and in the industries in my community, and if I can make a good loan to a permanent customer at 6 per cent, I would hesitate before I would lend to a temporary borrower at 18 or 10 or 12 or 14 per cent, because the local customer is going to be with me forever.

Mr. SEIBERLING. You would just put him off for a few months?

Governor YOUNG. I would not do that.

Mr. SEIBERLING. You would not do it, but, as a matter of fact I know it was done.

Governor YOUNG. I do not think it was done in the majority of cases, Mr. Congressman, and I say that with all sincerity. I believe that the bankers of the country——

Mr. BEEDY. Of course, we do not know about that. Nobody knows about it, but it is clear from your testimony that the call rate does now suffice to bring money into New York when they want it, and if the then existing rate does not bring it in, they put it up until they get it in New York, and in getting it into New York they brought about a bad situation in the market, and we are feeling the consequences of it at the present time.

Governor YOUNG. That is correct.

The CHAIRMAN. Following up my questions of a few moments ago one of the problems which confronted you as the head of the Federal reserve system, I inferred from your testimony, was the lack of control over the money that came into this market for the account of others and country banks. Am I correct in that? You referred to them as bootleg loans.

Governor YOUNG. Lack of complete control. We did have some surveillance over it—for instance, we watched the situation very carefully and would not permit a member bank to borrow from us and then turn around and lend on call solely for profit.

The CHAIRMAN. But that was one of your problems, the fact that there was money coming in over which the Federal Reserve Board did not have jurisdiction?

Governor YOUNG. I will go a little bit further than that and say that the member banks did not have jurisdiction.

The CHAIRMAN. The point I am getting at is that this New York call loan money market is limited by the rules in New York. New

York banks introduced bootleg loans into the call-loan market, they introduced the country banks into that market, and they introduced the business concerns of the country into that market, because those loans had to be made through the New York banks. Therefore I am assuming that the New York banks were largely responsible for bringing that money into New York.

Now, I would like to ask whether or not that situation could not be remedied either by rules and regulations of the stock exchange pertaining to those brokers loans, or through putting limitations on the New York banks as to the amount of money they can loan for account of others, and, if such loans are made, whether they could not be regulated to a great extent by requiring reserves against those loans in the same manner as the banks are required to keep reserves against deposits, because it has been clearly proven in this particular situation that there is no difference between the total aggregate of those brokers' loans in New York City and deposits in those banks in New York City—in other words, when those loans were called, the New York banks had to meet them just as they would demands from their customers for the withdrawal of their own funds.

Governor Young. Mr. Congressman, experience is a great teacher, and I suspect that the New York banks worried enough about that situation during 1928 and 1929, so that they are giving a great deal of thought to it. I have been informed that some studies are being made of it to see what can be done. I hope something can be developed.

Mr. Beedy. I am through but would tie all my questions up to the issue by asking you one question.

In your opinion, is it going to be easier through call-money rates or other banking devices in New York City to get funds into that center under a group-banking or chain-banking or branch-banking system than it would be under a unit banking system? Is not one of the arguments for this branch banking movement the mobility of funds and the advantages of the system?

Governor Young. That is an extremely hard question to answer, Mr. Congressman. The answer, I suppose, would be determined entirely by the attitude of the unit banker or the attitude of the group banker or the attitude of the branch banker.

Mr. Strong. How are you going to control the attitude?

Mr. Beedy. We can not go into that. Here is an opportunity, a possibility under a call-loan rate of 20 per cent, to get returns far in excess of any to be realized in any other interest market, and here is a big bank in New York City, in a group or a chain, extending clear across the country. All it has to do is to wire these banks and say, "Ship us so many thousand dollars." Is not that a fact?

We will not go into the attitude or the psychology of it, but it is going to much easier, as a matter of practical banking operation, to have that money there in New York and more quickly under a group, chain, or branch banking system than it would have been if consolidations had never been permitted or branch banks were never authorized throughout the country?

Governor Young. Under a branch banking system, of course, they would have those funds in New York, theoretically; that is where the books would be kept. In the case of a group bank where they attempt to maintain local autonomy, the possibilities are that the local bank had lent the money long before the central bank would have wired them.

Mr. BEEDY. Of course.

Governor YOUNG. The bank would not leave $200,000 lying around idle with a high call rate in New York.

Mr. BEEDY. Of course, they could not do anything unless the banks in the group had available funds for loaning purposes, but, if they had, it would be easier to get them in New York where they control the system or part of it than where they have to deal with independent banks.

Governor YOUNG. I do not think so.

Mr. BEEDY. Why not?

Governor YOUNG. If I am an independent banker in Minneapolis, Minn., I can get money on call inside of an hour's time and get it out just as quickly.

Mr. BEEDY. But you have to ask somebody else about it; you can not issue an order merely.

Governor YOUNG. I just have to wire my correspondent in New York to charge my account and put so much on call, and, if I want it back, I wire, "Call the loan and credit my account."

Mr. BEEDY. So that this argument which has been advanced here that there is an advantage under the branch-banking system in that it provides easier mobility of funds is not tenable, in your opinion?

Governor YOUNG. Mobility of funds to lend on the New York Stock Exchange?

Mr. BEEDY. For any purpose—getting funds and credits from one section of the country to the other in the group or chain or in the line of branches?

Governor YOUNG. Yes; I think there is something to the argument; but do not misunderstand me——

Mr. BEEDY. How can you answer that question "Yes" and the other question "No"?

Governor YOUNG. Because the argument for those funds was to get them into the interior and not in New York City.

Mr. BEEDY. Do you mean to say, then, that it would be easier to get funds out of New York City into the interior under a branch-banking system than it would be to get funds from the interior into New York City?

Governor YOUNG. That is the argument of the Comptroller of the Currency, and an argument that I am inclined to agree with.

Mr. BEEDY. Now, I think it would be interesting to have us understand why that is so. I have never grasped it.

Mr. WINGO. May I make a suggestion there? If I were to attempt to set forth the advantages of branch banking, I would say that there would be greater efficiency of control in a large bank with branches, with a quicker perception of the danger of keeping the money in the call-loan market, and a quicker tendency to pull it back to meet the needs of the interior.

Mr. BEEDY. It works both ways.

Mr. WINGO. I was moved to say that because you were about to infringe on my right; you have gotten over on my side, and, so, to keep the balance, I have gotten over on your side.

Mr. BEEDY. I do not know what you are talking about.

Mr. WINGO. Did you never play the old game of "shinny"?

Mr. BEEDY. Yes.

Mr. WINGO. You were "shinnying" on my side.

Mr. BEEDY. What is your position?

Mr. WINGO. My side is against branch banking, and, if you get over on this side, against branch banking, I just thought I would gravitate to the other side.

Mr. BEEDY. I want to get all the facts. My thought was that it is easier under a branch banking system to get funds out of New York City if the attitude of the banker in charge of the branch system is such as to take that step, and that it is likewise easier to get money out of the small localities into New York it is believed that greater returns for the moment under a branch banking system or group banking system may thus be realized than would otherwise be the case.

Governor YOUNG. I probably did not catch your former query. Obviously it would work both ways.

The CHAIRMAN. Mr. Strong, it is your turn to question the Governor.

Mr. STRONG. Mr. Chairman, I want to examine the Governor on branch, group, and chain banking, but this subject that has come up this morning is producing such a fund of information in favor of a policy of the Federal Reserve Board stabilizing the price of money that I want it continued, and I yield to Mr. Fort.

The CHAIRMAN. I understand Mr. Fort is, then, to proceed.

Mr. FORT. I want to ask one or two questions in reference to matters that have not been touched upon.

Customarily, Governor Young, call loans are not accompanied by any deposit from the borrower with the bank from which he secures the loan, are they?

Governor YOUNG. So far as the bank that lends the money in the interior is concerned, I do not think so. What arrangements a broker may have with the New York correspondents about compensating balances, I do not know.

Mr. FORT. As I get the practice, and certainly this is true as it relates to my own bank, if we lend money on the New York call market through our New York correspondent, we compensate that correspondent by a commission on the interest, but we get no deposits in Newark from anybody to compensate for the amount we loaned on call in New York.

Governor YOUNG. That is correct, unless you would make a time loan direct to that broker.

Mr. FORT. I am speaking of call loans only. Now, that differs from the usual rule of American banking, of requiring the borrower to maintain a deposit account with the bank that loans him the money, does it not?

Governor YOUNG. That is true, with the exception of commercial paper and bankers' bills.

Mr. FORT. Consequently, the bank has not the same opportunity to profit out of a call loan at 6 per cent when commercial loans in his vicinity are at 6 per cent, because it has no compensating deposit from the borrower on which it pays but 2 per cent or nothing.

Governor YOUNG. That is correct.

Mr. FORT. In other words, it is not lending him back part of his own money?

Governor YOUNG. No.

Mr. FORT. So that if you were to have a fixed call-loan rate, and desired to preserve the call-loan market, you would have to allow a higher charge for interest on call loans than on other loans, would you not?

Governor YOUNG. That is correct.

Mr. FORT. Now, the method of making call loans is that certain money brokers on the New York Stock Exchange handle those loans for all accounts, do they not, banks and nonbankers?

Governor YOUNG. In 90 per cent of the cases; yes.

Mr. FORT. And those money brokers make loans sometimes, we will say, of $5,000,000 in a single loan, which represents the money of 40 or 50 different lenders?

Governor YOUNG. It may be.

Mr. FORT. In one single loan?

Governor YOUNG. It may be.

Mr. FORT. That money broker gets a compensation for his services as the intermediary, based on the amount he places, does he not?

Governor YOUNG. I do not know, Mr. Congressman, whether that is so or not.

Mr. FORT. I think that is the fact.

Governor YOUNG. Well——

Mr. FORT. Now, in the peak of the money trouble last fall, the major part of the money loaned in New York on call was for the account of others and not for the account of member banks—is not that true?

Governor YOUNG. That is correct.

Mr. FORT. And that meant not merely loans for other banks, nonmember banks, but also very substantial loans for the account of business corporations and other types of financial institutions, did it not?

Governor YOUNG. That is correct.

Mr. FORT. There was nothing to prevent—and, indeed, it was done, was it not—the money brokers from handling the money for the account of nonmember banks directly without the intervention of any bank? For example, let us take the United States Steel Corporation; when it placed a call loan in the New York market of $30,000,000 or $40,000,000, it was placed through its own broker and not through its bank, was it not?

Governor YOUNG. I do not think so; it was placed through its bank.

Mr. FORT. But not invariably.

Doctor GOLDENWEISER. Not invariably.

Mr. FORT. Many of the large industrial corporations maintain their own lending offices, do they not?

Governor YOUNG. Not that I know of.

Mr. FORT. I thought they did. Many of the insurance companies and other institutions of that sort make the loans at their head offices and not through their banks.

Governor YOUNG. That is all news to me.

Mr. FORT. And there are many private bankers who loan direct, are there not?

Governor YOUNG. Yes; private bankers.

Mr. FORT. And when those men lend on call, they withdraw a deposit from a bank, do they not, in order to make a loan?

Governor YOUNG. In the great majority of cases.

Mr. FORT. The tendency of the high loan rate on call last year was toward a reduction in deposits in the New York banks, was it not?

Governor YOUNG. I will have to check those figures.

Mr. WINGO. Reduction of local deposits?

Mr. FORT. No; total deposits.

Governor YOUNG. Net demand deposits of reporting member banks of New York City between January and October 2 ranged from a low of $5,106,000,000 on August 2 to a high on January 2 of $5,682,000,000, and that $5,682,000,000 really should not be taken, because that is after the period that I have——

Mr. FORT. Now, the 1st of February.

Governor YOUNG. $5,354,000,000.

Mr. FORT. So that there was a decrease of $200,000,000 between the 1st of February and August?

Governor YOUNG. Approximately.

Mr. FORT. And that is the period when the highest call money rates prevailed, is it not?

Governor YOUNG. Correct.

Mr. FORT. Now, deposits increased after the collapse in the call-money rate which accompanied the collapse in the stock market, did they not?

Governor YOUNG. They increased very rapidly in New York City.

Mr. FORT. They went up from what?

Governor YOUNG. The peak of demand deposits, according to my figures here, occurred on October 30, when they mounted to $6,851,000,000.

Mr. FORT. And that was just at the time of the big crash?

Governor YOUNG. That was right at the end of it.

Mr. FORT. The crash went on into November.

Governor YOUNG. I mean that there was a very severe period from October 23 to November 1.

Mr. FORT. Was not this in very large part due to the return to the banks of money which had been previously loaned for the account of others?

Governor YOUNG. That is correct. What happened in October—that is from October 23 to November 1—is that the New York banks to save that situation (as the loans were called by country banks and by others, apparently through fear, because they had no use for the money), took the loans over, thereby increasing their loans, and the country banks and others left the money on deposit with the New York banks so that there was a very rapid increase in loans and a very rapid increase in deposits in the New York reporting member banks during that week.

Now, all that the New York banks needed to handle that situation was the additional reserve that they were required to carry with the Federal Reserve bank on the increase in deposits, and that is what the New York banks did during that period.

Mr. FORT. What happened to time deposits in that same period, between the 1st of February and the high point? What were the low and high dates?

Governor YOUNG. We will take February 1. Time deposits, New York reporting member banks, $1,200,000,000. On August 28 there were $1,189,000,000, practically no change.

Mr. FORT. What were they on the 30th of October?

Governor YOUNG. $1,257,000,000.

Mr. FORT. That is an increase of nearly $100,000,000.

Governor YOUNG. From February, an increase of $57,000,000.

Mr. FORT. But from August——

Governor YOUNG. From August, $100,000,000.

Mr. FORT. So that apparently between the low date of deposits in August, which was also at the time when the money rate was running very high and the time of the low money rate that followed the crash, there was a substantial increase in deposits with the member banks in New York City, both time and demand?

Governor YOUNG. There was an increase of $300,000,000.

Mr. FORT. Now, in that same period after the crash, would not the more significant figure be the total loans on collateral?

Governor YOUNG. I am inclined to think so.

Mr. FORT. What was the figure covering total loans on collateral in August?

Governor YOUNG. In New York, or throughout the United States?

Mr. FORT. In New York.

Governor YOUNG. My previous reply to you applied to the entire United States.

Mr. FORT. I appreciate that. I want to get New York first.

Governor YOUNG. I am giving you New York. Reporting member banks on January 30, loans on securities, which included brokers' loans, were $2,795,000,000.

Mr. FORT. What about the latter date?

Governor YOUNG. On October 30 they were $4,205,000,000.

Mr. FORT. What were they on that August date in between?

Governor YOUNG. On August 28 they were $2,819,000,000.

Mr. FORT. So that between February and August the figure is about the same, but by October 30 the loans on collateral had risen $1,300,000,000 by the New York banks?

Governor YOUNG. Correct. That practically all came in the week of October 23 to November 1st.

Mr. FORT. And that raise represented the transfer of securities by individuals from their broker's account to their bank, did it not?

Doctor GOLDENWEISER. Where customers borrowed directly from the banks instead of through brokers.

Governor YOUNG. That is correct; that represented a large part of the increase.

Mr. FORT. And it also represented a reduction in the amount of loans for the account of others which the banks had to step in and cover?

Governor YOUNG. Correct.

Mr. FORT. In this same period, when we have been observing that the change in the deposit figure was only a few per cent, the total brokers' loans had gone up from what figure on February 1 to the August 28 figure in New York City?

Governor YOUNG. On January 30 there were $5,559,000,000; on August 28, $6,217,000,000.

Mr. FORT. What was the peak?

Governor YOUNG. October 2, I think.

Mr. FORT. What was that?

Governor YOUNG. $6,804,000,000.

Mr. FORT. And that is an increase of $1,300,000,000 between February and October?

Governor YOUNG. That is approximately correct, sir.

Mr. FORT. But in that same period the deposits with all New York banks had remained practically stationary, had they not?

Governor YOUNG. Well, between February and August they had gone off——

Mr. FORT. No; February to October.

Governor YOUNG. Very little change.

Mr. FORT. So that the entire increase of $1,300,000,000 in the loan account between February and October 2 was provided other than through an increase of deposits with the New York banks which they loaned out?

Governor YOUNG. That is correct.

Mr. FORT. Now, that money came from abroad, as well as from this country, did it not?

Governor YOUNG. It did.

Mr. FORT. And as to the major portion of it, the bank must have acted simply as an agent and not as a lender for its own account?

Governor YOUNG. That is correct.

Mr. FORT. Otherwise it would be reflected by an increase in the deposit account?

Governor YOUNG. That is right.

Mr. FORT. Now, that would perhaps to some extent bear out your theory, Governor Young, that they could get the money somewhere if they could not get it from the banks, would it not?

Governor YOUNG. Yes.

Mr. FORT. You said in answer to a question—I think by Mr. Beedy—that the rapid decline in the call rate in October was due primarily to a drop in the demand rather than to an increase in the supply, in the total call loans.

Governor YOUNG. If I did I should have added some other factors to it.

Mr. FORT. I do not mean that you used those specific words, but that was the impression I got.

Governor YOUNG. I would like to add a little something to that. Starting with August, with the seasonal requirements of the country, the Federal reserve was buying bills and buying a limited amount of Government bonds, which had a tendency to put more credit into the market. In addition to that, in the latter part of October, when this crash did come, there was a willingness upon the part of New York banks to lend, when up to that time there had not been a willingness on their part.

Mr. FORT. I think you and I are not talking directly to the same point. As I recall it, the question of Mr. Beedy and your answer were something like this—or it may have been Mr. Seiberling's question: The question was asked you, in effect, whether the crash in the market was not due to a lessening of the supply of funds that even the high call rate failed to bring in, and your answer was that this decrease in loans was due rather to a decrease in demand for loans than to a lack of available funds. Is that correct, or is it not—to a decrease of brokers' loans?

Governor YOUNG. I want to answer that accurately, Mr. Congressman. That would cover the period from February until——

Mr. FORT. No. Perhaps I have not gotten it clear yet.

As I understood it, you were being questioned about the effect of high rates on drawing money in, and the question was asked you as to whether or not the high rate did not ultimately fail to draw enough money in to support the high stock market, and therefore it had to crash for want of money. What I am trying to get at is whether the crash came from the want of money to carry on, or whether it came from some other cuase, plenty of money being available?

Governor YOUNG. I think I did reply to that at the time, Mr. Congressman, that there was less demand, but in reviewing these figures I think perhaps it would be better for me to correct that and say that that there was an increase in the supply rather than a lack of demand.

Mr. FORT. It is now after 1, and there is a special matter coming up on the floor to-day.

The CHAIRMAN. I was simply letting you finish.

Mr. FORT. I know you were, and I would like, if I could, to finish because I had some conclusions I wanted to draw from these figures, and I would like to go on on Friday morning, as the governor says he can not be here to-morrow.

Mr. DUNBAR. Can we not have a session at 2.30 o'clock?

* * * * * * *

The CHAIRMAN. In accordance with the instructions of the committee, the chairman has sent invitations as follows:

To the Northwest Bank Corporation, Minneapolis, Minn., Mr. E. W. Decker, to appear before the committee April 15.

To the First Bank Stock Corporation, Minneapolis, Minn., Mr. L. E. Wakefield, to appear before the committee April 16.

To the Guardian Detroit Union Corporation, Detroit, Mich., Mr. Robert O. Lord, to appear before the committee April 23.

To the Marine Midland Corporation, Buffalo, N. Y., Mr. George F. Rand, to appear before the committee April 24.

To the First National Associates, Atlanta, Ga., Mr. John K. Ottley, to appear before the committee April 29.

To Mr. A. P. Giannini, Transamerica Corporation, San Francisco, and Mr. James A. Bacigalupi, Transamerica Corporation, San Francisco, to appear before the committee May 6.

These invitations have been accepted by all except Messrs. Ottley, Giannini, and Bacigalupi, and I have understood indirectly that it was agreeable to Mr. Giannini and Mr. Bacigalupi to appear on May 6 and I suppose I will receive later advice.

(Thereupon, at 1.05 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

Upon the expiration of a recess, the hearing was resumed.

The CHAIRMAN. The committee will come to order.

Mr. Fort, will you proceed?

Mr. FORT. Governor, I wish you would put into the record that memorandum you were referring to this morning of the usury rates in the different States.

Governor YOUNG. It covers the legal rates of interest and contract rates of interest of all the States in the Union, as taken from the Rand McNally Bankers' Directory as of date of June 30, 1929.

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

(The statement referred to is as follows:)

Interest rates

States and Territories	Legal rate of interest	Rate by contract	States and Territories	Legal rate of interest	Rate by contract
	Per cent	*Per cent*		*Per cent*	*Per cent*
Alabama	8	8	Nebraska	7	10
Alaska	8	12	Nevada	7	12
Arizona	6	10	New Hampshire	6	(2)
Arkansas	6	10	New Jersey	6	6
California	7	(1)	New Mexico	6	12
Colorado	8	(1)	New York	6	[3] 6
Connecticut	6	12	North Carolina	6	6
Delaware	6	6	North Dakota	6	9
District of Columbia	6	8	Ohio	6	8
Florida	8	10	Oklahoma	6	10
Georgia	7	8	Oregon	6	10
Idaho	7	10	Pennsylvania	6	6
Illinois	8	7	Porto Rico	6	12
Indiana	6	8	Rhode Island	6	(4)
Iowa	6	8	South Carolina	7	8
Kansas	6	10	South Dakota	7	10
Kentucky	6	6	Tennessee	6	6
Louisiana	5	8	Texas	6	10
Maine	6	(2)	Utah	8	12
Maryland	6	6	Vermont	6	6
Massachusetts	6	(2)	Virginia	6	6
Michigan	5	7	Washington	6	12
Minnesota	6	8	West Virginia	6	6
Mississippi	6	8	Wisconsin	6	10
Missouri	6	8	Wyoming	7	10
Montana	8	10			

[1] Any rate agreed upon is legal on loans over $300 but Colorado courts decline to indorse grossly unreasonable rates.
[2] Any rate.
[3] Any rate agreed upon in writing is legal on collateral demand loans of $5,000 and over.
[4] On amounts exceeding $50, 30 per cent, including service and expenses; on amounts not exceeding $50, 5 per cent per month for the first six months, 2½ per cent thereafter.

Mr. FORT. Governor, we were talking this morning about the effect of the brokers' loan situation on deposits. Will you give me again for the record the total of brokers' loans on February 2, August 28, and October 30, was it not, that we were using this morning?

Governor YOUNG. Well, using January 30, 1929, August 28, 1929, October 2, 1929, and October 30, 1929—I think those are the dates we used——

Mr. FORT. Yes.

Governor YOUNG. Total loans and investments of all reporting New York City member banks, January 30——

Mr. FORT. No, brokers' loans.

Governor YOUNG. Loans on securities?

Mr. FORT. No, brokers' loans first, please. Then I will come to securities.

Governor YOUNG. The total of all brokers' loans on January 30, 1929, was $5,559,000,000; on August 28 they were $6,217,000,000; on October 2, $6,894,000,000; and on October 30, $5,538,000,000.

Mr. FORT. Now, will you give me the secured loans of the New York banks for the same dates?

Governor YOUNG. January 30, $2,795,000,000; August 28, $2,819,000,000; October 2, $2,947,000,000; and October 30, $4,205,000,000.

Mr. FORT. And the demand deposits as of those same dates, of the New York banks?

The CHAIRMAN. May I ask, does that include time as well as call loans?

Governor YOUNG. That includes time and call loans, both.

January 30, $5,334,000,000 net demand deposits; August 28, $5,106,000,000; October 2, $5,279,000,000; October 30, $6,851,000,000.

Time deposits, January 30, $1,200,000,000; August 28, $1,189,-000,000; October 2, $1,256,000,000; and October 30, $1,257,000,000.

Mr. FORT. Now, will you give me the brokers loans for others?

Governor YOUNG. Will that include out of town banks?

Mr. FORT. Yes.

Governor YOUNG. I will have to add those figures.

Mr. FORT. Well, then, give them to me separately, loans for others and loans for out-of-town banks.

Governor YOUNG. For out-of-town banks, January 30, $1,853,-000,000; August 28, $1,756,000,000; October 2, $1,826,000,000; and October 30, $1,005,000,000.

For others, January 30, $2,615,000,000; August 28, $3,468,000,000; October 2, $3,907,000,000; and October 30, $2,464,000,000.

Mr. FORT. Now, one other set of figures, for all reporting member banks, demand deposits and secured loans. Let me have secured loans first on those same four dates.

Governor YOUNG. Loans on securities?

Mr. FORT. Yes.

Governor YOUNG. January 30, $7,440,000,000; August 28, $7,515,-000,000; October 2, $7,828,000,000; and October 30, $9,179,000,000.

Mr. FORT. And the deposits?

Governor YOUNG. Demand deposits, January 30, $13,395,000,000; August 28, $12,985,000,000; October 2, $13,295,000,000; and October 30, $15,110,000,000.

Now, time deposits. January 30, $6,893,000,000; August 28, $6,786,000,000; October 2, $6,825,000,000; and October 30, $6,868,000,000.

That covers about 700 banks, that represent 101 cities, about 40 per cent of all total loans and investments.

Mr. FORT. From these figures, Governor, it appears that brokers' loans between January 30 and October 2 of the New York City banks increased from $5,500,000,000 to $6,800,000,000, or $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. And in that same period the secured loans of the New York banks for their own account only increased $150,000,000?

Governor YOUNG. For October 2?

Mr. FORT. Yes, sir.

Governor YOUNG. $150,000,000.

Mr. FORT. And that the loans for out-of-town banks, brokers loans, decreased $27,000,000?

Governor YOUNG. $27,000,000; that is correct.

Mr. FORT. But that in the same period the loans for the account of others, which means non-banks, I take it, increased from $2,615,000,000 to $3,907,000,000, or $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. In that period it also appears that the deposits, demand deposits, in New York City banks actually decreased $55,000,000?

Governor YOUNG. That is correct.

Mr. FORT. And the deposits of all banks decreased $100,000,000?

Governor YOUNG. Demand deposits?

Mr. FORT. Demand deposits.

Governor YOUNG. That is correct.

Mr. FORT. And the deposits on time of all banks decreased $68,000,000?

Governor YOUNG. $68,000,000.

Mr. FORT. In other words, at the peak of brokers' loans on October 2, banks for their own account were lending less money, or only slightly more money, both out-of-town and New York banks, than they were lending at the end of January?

Governor YOUNG. That is, October 2?

Mr. FORT. Yes.

Governor YOUNG. $47,000,000 less.

Mr. FORT. The money that made the trouble, then, in New York was not bank money, was it; that is, the money that met the high interest rate?

Governor YOUNG. Not in my opinion; practically no increase in the amount the New York banks had loaned to brokers from 1927.

Mr. FORT. It is not only the New York banks, but the loans of all banks, secured loans, have gone up in that period, between January 30 and October 2, for their own account, $382,000,000, while the brokers' loans have risen $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. And the banks have lost $100,000,000 deposits in that interim?

Governor YOUNG. Demand deposits?

Mr. FORT. Yes.

The CHAIRMAN. May I suggest that it would be helpful if Governor Young would describe the sources from which this money came?

Mr. FORT. I was coming to that.

There are only two places from which a bank can get the resources with which to loan funds for its own account, are there not, and those are its own capital and surplus funds and its deposit account?

Governor YOUNG. And what it might borrow from the Federal reserve banks.

Mr. FORT. Yes. The outsiders, however, nonbankers, have available all of their funds in any form to loan if they want to loan them—I mean, they can withdraw their moneys from the bank to make loans with, if they want to?

Governor YOUNG. That is correct.

Mr. FORT. Do you know or do you know whether there were substantial withdrawals from the banks for the purpose of direct loan by corporations on the stock market?

Governor YOUNG. There were.

Mr. FORT. Now, one other figure. We have confined ourselves here to the period between January and October 2. I now want to use the October 30 figures which I have taken off as you read them. If I am wrong, will you correct me as I read them into the record?

Brokers' loans between October 2 and October 30 had gone down from $6,804,000,000 to $5,538,000,000?

Governor YOUNG. That is correct.

Mr. FORT. The secured loans of New York banks had in the same period gone up from $2,947,000,000 to $4,205,000,000?

Governor YOUNG. That is correct.

Mr. FORT. That difference is practically $1,300,000,000 in each case, is it not? Brokers' loans are down $1,300,000,000, and loans on security by New York banks are up $1,300,000,000?

Governor YOUNG. That is correct.

Mr. FORT. As to loans for the account of others in that period, brokers' loans had gone down from $3,907,000,000 to $2,464,000,000, or about $1,450,000,000?

Governor YOUNG. That is correct.

Mr. FORT. In that same period also New York demand deposits had increased from $5,279,000,000 to $6,851,000,000, had they not?

Governor YOUNG. Yes, sir.

Mr. FORT. Or about the same amount that their loans had increased?

Governor YOUNG. $1,550,000,000, approximately.

Mr. FORT. Their time deposits were stationary. Their loans for out-of-town banks in that period had gone down from $1,826,000,000 to $1,005,000,000; is that correct?

Governor YOUNG. $1,826,000,000 to $1,005,000,000.

Mr. FORT. Now, turning to all bank loans for their own account between October 2 and October 30 on secured loans, that figure had gone up from $7,828,000,000 to $9,179,000,000; is that not correct?

Governor YOUNG. Yes, sir.

Mr. FORT. Which, again, is that figure of $1,300,000,000 that we seem to get?

Governor YOUNG. Practically all in New York.

Mr. FORT. And their deposits had gone up from $13,295,000,000 to $15,110,000,000?

Governor YOUNG. That is correct.

Mr. FORT. So that we find, when we come to analyze that loan picture, that the banks gained in deposits as they increased their loan account?

Governor YOUNG. That is always true.

Mr. FORT. And that the market was not financed between January and October by way of increase in loans out of bank funds, but out of funds for others?

Governor YOUNG. That is correct.

Mr. FORT. And the deflation between October 2 and October 30 resulted only in a decrease in the loan account for the account of others and an increase in the loan account for the account of the banks themselves?

Governor YOUNG. Not dollar for dollar.

Mr. FORT. Not exactly?

Governor YOUNG. No.

Mr. FORT. But a correlative one, in part.

Governor YOUNG. I think, if you figured that out, that there was a real liquidation, exchange of securities.

Doctor GOLDENWEISER. That was after October 30.

Mr. FORT. There was some before, obviously.

Governor YOUNG. Yes.

Mr. FORT. You have a decrease in loans to brokers between October 2 and October 30 for all accounts, a net decrease of about $900,000,000 in brokers' loans?

Governor YOUNG. For what dates?

Mr. FORT. October 2 to October 30.

Governor YOUNG. $1,262,000,000, I would say. That is, all brokers' loans went from $6,800,000,000 down to $5,538,000,000.

Mr. FORT. And that includes time loans?

Governor YOUNG. Yes; that is a $1,262,000,000 reduction.

Mr. FORT. But you had in that same period a deduction of $1,400,000,000 in loans for others, and a deduction of $800,000,000 in loans for out-of-town banks?

Governor YOUNG. That is correct.

Mr. FORT. Now, are you able to hazard what we might call an educated guess as to how much of that money was foreign money that was in those loans for the account of others?

Governor YOUNG. That is a very difficult figure for us to furnish, Mr. Congressman. The nearest that we can come to it is the amount of money that might have been loaned on call by New York banks or private banks for foreign banks, and that would exclude individuals and corporations and others, and that figure is only $150,000,000.

Generally speaking, foreign banks of issue and other foreign banks either leave their money on deposit here or they invest it in United States Government bonds, so that that figure would be of little benefit.

Mr. FORT. Or handle it through banking houses, which you get no record of.

Governor YOUNG. I think this does cover a record of some of the private banking houses.

The CHAIRMAN. May I ask, in connection with that, whether or not the Federal reserve keeps a record of the amount of foreign money on deposit in this country?

Governor YOUNG. We attempt to keep a record, and the Department of Commerce is attempting to do the same thing, but they are very unsatisfactory figures.

The CHAIRMAN. I should think they would be very essential figures in the exercise of the functions of the Federal reserve.

Governor YOUNG. We realize that, but they are extremely hard to get. At one time those figures were as high as $370,000,000, Mr. Congressman, just before this break, and the procedure, I think, that was followed generally by the foreign correspondents was to leave the money on deposit with the New York banks or the interior banks, and they paid them a rate of interest that bore relationship to the call-loan rate or the average rate they received.

I would rather not furnish that figure, because it does not sound right; it sounds much too small.

Mr. FORT. Very much too small. What I am after, however, is to see how much money there is available for what you call bootleg loans in this country. It seems to me quite obvious from these figures that there is a substantial volume of it.

Governor YOUNG. Well, there was approximately $4,000,000,000 on October 2.

Mr. FORT. Out of total loans of $6,800,000,000, brokers' loans.

Governor YOUNG. That is correct.

Mr. FORT. Now, that money was attracted here undoubtedly, or attracted into the loan market, by the rate, was it not—not necessarily by the individually high rate for a given date, but by the continuance of high rates over a long period?

Governor YOUNG. I would say that those funds were attracted in that market ever since the rate got to 3 per cent.

Mr. FORT. And kept increasing in volume as the rate went up?

Governor YOUNG. Yes.

Mr. FORT. The bulk of that money which was American in its origin as distinguished from foreign, must have come out of the deposits of some bank, must it not?

Governor YOUNG. Well, there are many factors to take into consideration there. If you would take the figures that we have been using, it would look as if the deposits had not gone down in any such proportion as the loans for others had gone up, so we have to go back a little bit and remember that there was a great gold movement into this country from 1921 clear through to 1924, that permitted a tremendous pyramiding of credit in this country. The momentum that that received up to 1924 continued clear through until 1928. In 1927 gold proceeded to leave this country, and as it left the country the only way that the banks of the United States—I mean collectively—could make up that shortage, was to borrow from the Federal reserve banks, with the result that their rediscounts did increase very rapidly during that period. Now, as those deposits were withdrawn from banks to lend on call, obviously somebody purchased the stock on credit and paid the owner, and the owner in turn had to redeposit in some bank somewhere.

Mr. FORT. But the original effect of the creation of the credit that was continually marking up the prices of securities and marking up the amount of chips that were exchanged for them should have been to swell the deposits, should it not?

Governor YOUNG. It did decrease the deposits throughout the United States?

Doctor GOLDENWEISER. Somewhat, but I think the point is correct. The loans for account of others did not create new deposits.

Governor YOUNG. It did not increase the deposits; it had a tendency to decrease them.

Doctor GOLDENWEISER. Just transferred them from one bank to another without increasing them.

Governor YOUNG. And if there was any tendency at all, it was downward.

Mr. FORT. Let us get at this other factor that affects the capital that was used there. What was the rediscount position of the New York banks? What were their total rediscounts on these same dates that we are talking about?

Governor YOUNG. On January 30 they were $215,000,000; August 28, $241,000,000; October 2, $152,000,000; and on October 30, $246,000,000.

Mr. FORT. And for all banks?

Governor YOUNG. For all banks, on January 30——

The CHAIRMAN. Do you mean for all banks in the United States or all banks in this——

Mr. FORT. All reporting banks.

Governor YOUNG. This would cover all member banks: $821,000,000 on January 30; $974,000,000 on August 28; $931,000,000 on October 2; and $991,000,000 on October 30.

Mr. FORT. You say that no great part of that volume of additional capital came by way of rediscounts?

Governor YOUNG. Not during that period.

Mr. FORT. Only an increase of $110,000,000 in all banks between January 30 and October 2, and an actual decrease of $61,000,000 in New York between those same dates?

Governor YOUNG. That is correct.

Mr. FORT. What were the gold imports in that same period?

Governor YOUNG. They would have a bearing on the amount of rediscounts. There was a large increase of $200,000,000 or more in gold supply.

Mr. FORT. What are the figures?

Governor YOUNG. On January 26, this figure was $4,117,000,000; on October 26, the average for that week was $4,386,000,000, an increase of $269,000,000 during that period.

Mr. FORT. How much currency was based on that increased gold?

Mr. BEEDY. Will you pardon me? Your record here tends to show that this was all imports, but you are now quoting figures on the stock of gold in the country, not just imports.

Governor YOUNG. I don't know just what the imports were during that period, but it was released from earmarks or imports or production; it came from those three sources.

Also, during that period money in circulation increased about $121,000,000.

Mr. FORT. From what to what?

Governor YOUNG. From January 26, when it was $4,677,000,000, to October 26, when it was $4,791,000,000, and an increase in currency requirements would have a tendency to increase the discounts, while the imports of gold would have a tendency to decrease the discounts of the banks.

Mr. FORT. Altogether, however, there is not enough in that to account for the inflation in the loans, is there? There is not enough in those gold figures or those rediscount figures?

Governor YOUNG. Well, that would make a difference to the extent of $100,000,000 only.

Mr. FORT. Have you the figures there, Governor, that will show what the commercial-loan picture was as of these dates?

Governor YOUNG. I am furnishing that figure with reservations.

Mr. FORT. This is for all banks?

Governor YOUNG. This is for reporting member banks.

Mr. FORT. This is the comparative figure to what you are using?

Governor YOUNG. Yes; and I do not know as I should give these figures as commercial loans. They are classified as all other loans.

Mr. FORT. Other than secured?

Governor YOUNG. Other than secured loans, presumably commercial loans, but, of course, you know and I know that many of them are not.

On January 30, $8,675,000,000; August 28, $9,434,000,000; October 2, $9,600,000,000; October 30, $9,755,000,000.

Mr. FORT. So that running hand in hand with the increase in brokers' loans of $1,300,000,000 between January and October 2, there was an increase of $925,000,000 in unsecured loans?

Governor YOUNG. Correct.

Mr. FORT. So that apparently if those unsecured loans were not for stock-market use, the business of the country got a substantial increase in funds at the same time the stock market was continuing to substantially increase?

Governor YOUNG. That is correct.

Mr. FORT. Somewhere, then, between January and October we found $925,000,000 of additional loans for general business purposes, along with $1,300,000,000 of additional loans for brokers?

Governor YOUNG. That is correct.

Mr. FORT. Now——

The CHAIRMAN. May I ask a question there, Mr. Fort?

Mr. FORT. Yes.

The CHAIRMAN. Are we to infer that that money was used in industry, or did it go into the stock market?

Mr. FORT. I said I had some reservations on that subject in some of my questions. These were nonsecured loans.

Governor YOUNG. I presumed that they were used for business.

The CHAIRMAN. There is no way of telling, however, what it was used for?

Governor YOUNG. No. For instance, Mr. Chairman, a good customer of a bank comes in and asks for a loan of $10,000. They lend it to him. They do not ask any questions what he is going to do with it. It might go one way and it may go another way.

The CHAIRMAN. In that connection, a case was cited to me in New York where a man went in with United States Steel stock and asked his bank for a loan of $100,000. The bank said that they could not loan it to him if he was going to buy stocks, and he said that that was what he was going to use it for; but they did make the loan to him on his own personal note for $100,000 and he put his collateral in his pocket and walked out.

Governor YOUNG. There may be some of those cases, Mr. Congressman, but in the aggregate they would not amount to much.

I want to remind the committee that between February and July there was very active business in this country.

Mr. FORT. Which is reflected in the increase in loans; there is no question about that.

The conclusion that I personally reached on these figures, and I would like to have you check up with me, Governor, is this, that the banks as such were neither responsible for nor did they gain in any material way by the exaggerated brokers' loan position in New York City.

Governor YOUNG. I think, generally speaking, Mr. Congressman, with very few exceptions throughout the United States—and my contact was mostly with the larger banks—that they did everything within reason, everything within their power, to restrain this from expanding any further.

Does that answer your question?

Mr. FORT. It does, in part.

Governor YOUNG. There were some exceptions.

Mr. FORT. The further question in my mind is whether, with the net loss in deposits which accompanied this performance in spite of an increase in commercial loans of $925,000,000 between January 30 and October 2, the fact that there was a decrease of $100,000,000 in deposits in that same period in the same banks indicates, as it seems to me it does, that they lost substantial deposits that they should have had?

Governor YOUNG. I think that is true.

Mr. FORT. And that therefore from the banks' own position, this money flurry in New York was harmful?

Governor YOUNG. I think it was harmful to everyone, Mr. Congressman. Perhaps I can illustrate that by following along just what did happen. For instance, when the broker got up to a point where he was charging the customer, say, 8 per cent, that prompted that customer to go to his local bank and request accommodation at 6 per cent or 5 per cent or whatever rate he could command, and he could command a pretty good rate because he had been a customer of the bank for many years, carried a very handsome deposit there and had not asked for any accommodation for years. So that, taking the city of Chicago, while they called these New York loans at the higher rates of 8, 9, or 12 per cent, they simply took that customer to another window where they lent him the money at 6 or 7 per cent. Of course, 6 or 7 per cent is a good profitable transaction for a bank, but not as profitable as the 14 or 15 per cent that they could have gotten by continuing to lend on call.

Mr. FORT. But the thing I am trying to get to is this, that if, as these figures seem to bear out, the banks, looking at them from their primary function, as banks of deposit, are not gainers by this enormous volume of loans induced by high call rates, and are losers from the subsequent disturbance of business, would they be better off if in any of these laws we make here we considered this question of call loans?

Governor YOUNG. Obviously that is a thing that should be considered. What the solution of it is, I do not know.

Mr. FORT. I do not, either.

Governor YOUNG. You have to bear in mind that the New York banks did increase their profit to a certain extent when they put a charge of one-half of 1 per cent on all of these loans they made for the account of others.

Mr. FORT. I am taking the banks of the Nation as a group. We can not consider legislation solely for the benefit or harm of a given group of banks.

The CHAIRMAN. That commission only went to the New York banks, though.

Mr. FORT. Yes.

The CHAIRMAN. That is right, is it not?

Governor YOUNG. Generally speaking, yes. Whether some of the interior banks charged a commission on top of what New York charged, I do not know. Some of them may have.

Mr. FORT. But it is also a fact, is it not, Governor, that if we attempted to regulate this situation by drastic regulation, we would simply increase what you called bootleg loans at the expense of loans that are placed through the banks and which we at least have a record of?

Governor YOUNG. I am afraid so, and I think that the only possibility of controlling that is in the way of something that the New York banks and the stock exchange may be able to work out themselves, but I do not know that there is a possibility of that.

Mr. FORT. It is also a fact that the inception of every speculative market is in low money and not in high money, is it not?

Governor YOUNG. As to every one that I can remember, that is true.

Mr. FORT. The accumulation of holdings by pools and large borrowers is always or almost always at a time of cheap money, is it not?

Governor YOUNG. The inception of it; yes.

Mr. FORT. And the high money period follows, when they have gotten the public interested and the public is beginning to clamor and not care what they pay for money, as long as they think they are going to make 10 per cent overnight in the stock?

Governor YOUNG. I think that in the last experience, maybe some of the originators stayed a little too long.

Mr. FORT. They originated too high. So that a mere curb on the high rate would not necessarily reach the whole evil?

Governor YOUNG. I do not think so.

Mr. FORT. And there would be some excuse for a higher call rate than for an ordinary loan rate because of the absence of a covering deposit, would there not?

Governor YOUNG. In the period such as we had from 1927 on, that is what happened, but ordinarily the call loan rate, which is supposed to be for an overnight loan, commands a much lower rate.

Mr. FORT. I know it does ordinarily, but there would be some excuse for the usury laws to be fixed, for example, so as to permit the call rate at times to rise above the commercial loan rate, because there is no covering deposit?

Governor YOUNG. Yes; that would be one factor.

Mr. FORT. On the other hand, the call loan is regarded generally as the safest and most liquid loan possible, is it not?

Governor YOUNG. I would prefer to put the bankers' bills and trade bills ahead of them.

Mr. FORT. But, with a trade bill, you have to wait until its due date.

Governor YOUNG. Yes.

Mr. FORT. And call money is the most liquid, because you can get it the next day.

Governor YOUNG. You mean, an overnight transaction?

Mr. FORT. Yes.

Governor YOUNG. I think Federal funds would be a little more liquid.

Mr. FORT. But even Federal funds would have to be sold at a discount the following day—a discount below the price at which they were purchased.

Governor YOUNG. Oh, no; you get 100 cents on the dollar the next day. You discount it to-day and it calls for 100 cents on the dollar to-morrow.

Mr. FORT. I thought you meant Government bonds?

Governor YOUNG. If you are operating a bank and you have some surplus reserve with the Federal reserve bank and I am short, I will say, "I will buy your surplus from you." If the discount rate is 3½ per cent, you have to make me a rate to induce me to buy it. But you sell it at a rate probably under 3½ per cent and you get your money the next morning at 100 cents on the dollar.

Mr. FORT. But the volume of that is not like the demand for call money?

Governor YOUNG. No; but at times it runs to one hundred to one hundred and fifty million.

Mr. FORT. But in comparison with any other form than what you call Federal funds, call loans are the most liquid, in that they are callable, practically speaking, without notice and payable at par?

Governor YOUNG. No; I would put bills before call loans. I would put bills ahead of call loans on collateral because, in a real emergency, if you have a call loan on bills you can always go to a Federal reserve bank and sell at a price.

Mr. FORT. If your call loan on collateral has been intelligently made and watched, you can also.

Governor YOUNG. As long as you can borrow from Peter to pay Paul; yes. You can not take call money to the Federal reserve bank, but you can take bills.

Mr. FORT. I was not thinking in terms of liquidity in Federal reserve terms but liquidity in the sense of instant realization.

Governor YOUNG. I hesitate in putting collateral loans above the commerce and business of the country.

Mr. FORT. I do not blame you for that.

The CHAIRMAN. May I ask a question there, Mr. Fort?

Mr. FORT. Certainly.

The CHAIRMAN. The suggestion has been frequently made that brokers' loans be made eligible for rediscount in the Federal reserve. What is your opinion about that?

Governor YOUNG. I am opposed to it.

Mr. FORT. There is just one other question along a different line, but it was brought out by what Mr. Luce and Mr. Beedy were questioning you about.

Generally speaking, the higher rates of legal interest are to be found in those sections where there is less capital invested in banking—is not that true?

Governor YOUNG. I should like to check that, Mr. Congressman, but I think you are right in that statement.

Mr. FORT. Generally the lower rates prevail in those States that are known as possessing more capital, like the eastern States and the more powerful mid-western States—is not that true?

Governor YOUNG. That is true, but I took the position this morning that the rates were generally lower in the East than in the West, but I did not take into consideration the compensating balances which might make quite a difference. Generally speaking, I think, in reply to your inquiry, rates are higher where there is less banking capital.

Mr. FORT. That is true internationally as well as within this Nation and has always been true, has it not, that in the nations or sections where there is the greatest amount of capital for investment, the supply side produces lower rates?

Governor YOUNG. Generally speaking; yes.

Mr. FORT. And we, as a nation, used to pay England very much higher rates for the capital that was invested over here by England than England was able to get on her own loans at home?

Governor YOUNG. That is correct.

Mr. FORT. Until we became a nation of large capital?

Governor YOUNG. That is correct.

Mr. FORT. And if that be true—and I interject here that I am somewhat like Mr. Wingo; I am not yet a convert to branch banking—if it be true, will it perhaps not have a tendency to influence country loan rates downward if banking institutions with substantial capital extend out into those sections?

Governor YOUNG. In my opinion it will.

Mr. FORT. Governor, will you put into the record at this point, the call-loan rates on the four days that we have been using?

Governor YOUNG. I shall be glad to do that.

Mr. FORT. And the Federal rediscount rates on the same day—call and time on collateral?

Governor YOUNG. We shall be glad to do that.

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

Discount rate at the Federal Reserve Bank of New York, compared with open-market rates on stock exchange collateral loans: 1929

	Call rate (renewal)	Time rate	Discount rate, Federal Reserve Bank of New York
1929:	*Per cent*	*Per cent*	*Per cent*
Jan. 30	7	7½–7¾	5
Aug. 28	9	8¾–9	6
Oct. 2	9	9	6
Oct. 30	6	6	6

The CHAIRMAN. There has been so much said about brokers' loans, I suggest, Governor, that you define a brokers' loan and tell us how it is handled.

Governor YOUNG. Why, a buyer of securities goes to his broker and orders certain stocks. He may put up a cash deposit with the broker or he may put up some listed securities. He ends up, if he can not pay for them in full, with a debit balance. In so far as he is concerned, it is an open account with the broker. No note is given.

A broker has many customers. During the course of a day he buys a certain number of shares of stock for various customers and, to settle for those the next morning at 10 o'clock, he has to borrow some money. So, he telephones to the exchange that he wants to borrow a certain amount of money. Simultaneously, some one who has some money to lend, phones to the exchange at the loan desk and offers to lend a certain amount of money. The rate, as I explained the other day, is fixed by the stock clearing committee. That means that the broker has an obligation to furnish certain collateral covering a certain loan at a certain rate promptly the next morning. The lender has an obligation to lend money, if the note is presented and satisfactory collateral is delivered.

Now, what more would you want to know about it, Mr. Congressman?

The CHAIRMAN. In that connection, the loan is made necessary because of a larger volume than the capital the broker has on hand to carry on the transaction?

Governor YOUNG. Quite right.

The CHAIRMAN. And a margin is exacted, of course, a minimum of 20 per cent and, in many instances, like last year, the margins run up even as high as 60 per cent on those loans?

Governor YOUNG. That is correct.

The CHAIRMAN. Is it not a fact that a broker's loan, when it gets into the portfolio of a bank is no different than any other collateral loan except it would be regarded as the highest type of collateral loan because of the fact that there are certain restrictions as regards the kind of collateral and the margin back of the loan?

Governor YOUNG. That is a correct statement.

The CHAIRMAN. In other words, these brokers' loans, when they are finally lodged in the portfolios of any bank, are similar to any other collateral loan?

Governor YOUNG. That is correct.

The CHAIRMAN. The stock exchange clearing house has an organization for the purpose of handling the loans of all their member brokers, have they not?

Governor YOUNG. Arranging for the loans.

The CHAIRMAN. So that any broker who finds himself in need of additional funds, to make settlements for the stocks and securities which he has handled during the day, either in buying or selling, is promptly furnished through that organization each day with whatever his requirements may be?

Governor YOUNG. At the rate.

The CHAIRMAN. And I understand each morning, at a quarter to ten, the committee in the clearing house of the stock exchange, meets and decides what the renewal rate shall be?

Governor YOUNG. I do not know what the exact time is, but it is flashed on the ticker at 10.40.

The CHAIRMAN. That is a very complete organization and it serves that purpose perfectly, so far as the brokers' requirements are concerned?

Governor YOUNG. Both borrowers and the lenders seem to be satisfied with the method of handling it.

The CHAIRMAN. It is my observation that when the brokers have had a large volume of business during the day and there has not been sufficient funds offered at the loan post to make complete settlements, it is the practice of the committee in charge to call up the banks and tell them how much money they need, either 1 million or 5 or 10 millions, in order to make these settlements.

Do you know about that? I do not mean to exact that from you, Governor. I will state that as a fact. That is the method pursued.

This loan group in the stock exchange clearing house is governed in the fixing of rates by taking into consideration the amount of demands for loans, the amount of money that is freely offered by banks and I suppose undoubtedly they keep in touch with the Federal reserve bank as to conditions there; in other words, they take into consideration all the elements that enter into the money situation in arriving at a proper renewal rate for the day. Whether they consult with the Federal reserve bank or not, I do not know.

Governor YOUNG. They do not.

The CHAIRMAN. But they do take into consideration the published reports of the Federal reserve banks?

Governor YOUNG. Yes, sir.

Mr. SEIBERLING. Did the stenographer get that answer?

The CHAIRMAN. I mention that to show, in connection with what you said to-day, that there does exist perfect machinery for handling these brokers' loans and that machinery serves to make readily accessible all the money that is sent there to finance the stock-exchange operations.

Now, in that connection, it seems perfectly plain that the cooperation by the banks in New York, particularly in furnishing these funds for these stock-exchange operations, adds to that easy accessibility of these funds for stock-market operations.

If that machinery and that cooperation by the big banks of New York—I am not saying it is not necessary or nonessential; it is probably necessary in the present method of doing business—but if those operations were not synchronized into a perfectly working machine, and the stock brokers had to secure their money in the same method as commerce has to secure it, by going to individual banks throughout the country, it would not be so readily accessible for large stock operations. So, to that extent, it is perfectly plain to me that the organization between the stock-exchange brokers and the clearing-house association which negotiates those loans and the cooperation of the big banks to meet the demands for settlement each day, are furnishing almost a perfect machine to facilitate the carrying on of stock-market operations.

Uuder the plan which has been operating, the New York banks solicit funds, not only from the country banks, but from industrial and commercial institutions throughout the country who have sent surplus funds into that market; that they are also encouraging the use of money from the country in that market and greatly facilitating the opportunity for financing stock-exchange transactions.

I would ask you, Governor, whether I have correctly stated that possibility.

Governor YOUNG. I think that the machinery has been set up to handle that class of business in the best way that they can devise; yes. As I have said earlier in the day, I have never had any actual experience, but I have been informed that New York banks have solicited accounts and offered that service originally gratuitously and within the last year making a charge for it.

The CHAIRMAN. You suggested that perhaps some protection might come about in a change in the rules that the stock exchange could adopt. Do you care to make any suggestion as to what that rule might be?

Governor YOUNG. I do not. I have not anything to offer on that, Mr. Chairman.

The CHAIRMAN. You referred in the questioning by Mr. Fort I think it was as of October 2, to $4,000,000,000 of brokers' loans. Was that the date?

Governor YOUNG. For the account of others?

The CHAIRMAN. Yes.

Governor YOUNG. $3,907,000,000.

The CHAIRMAN. Mr. Fort asked you from what source that money came. Would you think any of that money was made available through the use of Federal Reserve credit?

Governor YOUNG. Indirectly; yes.

The CHAIRMAN. Now, another question that was raised here——

Governor YOUNG. I want to amplify that a little further, Mr. Chairman, by saying that it is extremely difficult for the Federal reserve system to earmark the credit it releases. The initial transaction may be a commercial one that is paid to some one else and paid again to another party——

The CHAIRMAN. But finally gets into the brokers——

Governor YOUNG. What finallly becomes of it one can not tell. It can move in almost any direction.

The CHAIRMAN. You were stating that some of this increase was made possible by the influx into this country of a large volume of gold. I think you said from 1920 to 1925.

Governor YOUNG. 1924.

The CHAIRMAN. I have the impression—it is rather hazy in my mind—that during this period of time the Federal reserve or some of the officers of some of the Federal reserve banks made an explanation as to the use to which that gold was being put and I gained the impression that the country was told that that gold was being impounded and was not being used or permitted to be used in increasing credit facilities here, but that it was looked upon rather as a trust fund and was held intact and, therefore, could not tend to create an excess amount of credit in this country.

I also gained the impression two years ago when I was in London that that had been the policy of the Federal reserve, but apparently it had not worked out that way.

Do you recall whether the Federal reserve did explain, or some of the officers of the banks explained, that that money was being sterilized or not used?

Governor YOUNG. I have no knowledge of that, Mr. Chairman. I have no recollection of any statement. What happened between 1920 and 1922 was that the gold that came to this country was used largely by member banks to enable them to retire their rediscounts with the Federal reserve system.

I shall have to carry that up to 1924, Mr. Chairman. All that gold that came in between 1920 and 1924, generally speaking, was used to retired rediscounts of the Federal reserve banks, the rediscounts going down to about $400,000,000 in 1922 and later, in 1924, going down to about $225,000,000.

The CHAIRMAN. What was the effect of that? Did that have the effect of increasing credit?

Governor YOUNG. Yes; to a certain extent. We have observed in the Federal reserve system (not only in the New York district, but in the entire system) that when rediscounts of member banks get above $500,000,000 there is a tendency to tighten credit through the country; conversely when rediscounts get below $500,000,000 it has a tendency to ease credits and when it gets down to $200,000,000, where it is to-day, you get real easy credit in short-time credits.

Now, that comes about because, traditionally, our banks do not like to show obligations for borrowed money. When it is under $500,000,000 it works from bank to bank, so that no particular bank is in debt any great length of time. When it is above $500,000,000, it is harder to pass it around the circle and a bank stays in debt longer and to get out of debt it naturally puts pressure on the borrower and that has a tendency to tighten credit.

The CHAIRMAN. So that really, as a matter of fact, when that gold came in, it was put to use; it was not sterilized or stored, but used by member banks to reduce their borrowings from the Federal Reserve banks?

Governor YOUNG. That is correct.

The CHAIRMAN. Now, referring to the February 5, statement of 1929 and the subsequent months in connection with the questions of Mr. Fort, and the borrowings by the New York banks from the Federal reserve, and the other 700 banks that he was referring to in his questioning, did the Federal Reserve Board or the Federal reserve bank of New York admonish member banks to reduce their borrowings during the period from February to October 1, 1929?

Governor YOUNG. The Federal Reserve Board's public statement clearly asked for their cooperation to prevent a continuation of rapid expansion.

The CHAIRMAN. I am led to ask that question because it is a matter of record that the New York banks, during that period were not borrowing to any great extent from the Federal reserve bank of New York, as I recall.

Governor YOUNG. Well, on February 6, the date that statement was issued, the rediscounts in the New York bank were $195,000,000.

The CHAIRMAN. They are reported weekly?

Governor YOUNG. This report covers weekly.

The CHAIRMAN. I am going to suggest that you place in the record at this point the borrowings of the New York banks from the Federal reserve bank from the period February 6, up until November 1, 1929.

Governor YOUNG. That includes the New York City banks or New York district?

The CHAIRMAN. The New York district, including the New York City banks.

Governor YOUNG. I have the figures right here, but I can furnish that to go into the record. You do not want me to read them all now?

The CHAIRMAN. No; just put them in.

Governor YOUNG. I can give the maximum and minimum during that period.

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

Total discounts of the Federal Reserve Bank of New York

[In millions of dollars]

1929—Jan. 30	213
Feb. 6	195
Feb. 13	253
Feb. 20	182
Feb. 27	222
Mar. 6	271
Mar. 13	225
Mar. 20	208
Mar. 27	299
Apr. 3	236
Apr. 10	247
Apr. 17	260
Apr. 24	263
May 1	248
May 8	277
May 15	254
May 22	197
May 29	194
June 5	210
June 12	226
June 19	252
1929—June 26	318
July 3	425
July 10	439
July 17	423
July 24	398
July 31	386
Aug. 7	384
Aug. 14	284
Aug. 21	233
Aug. 28	241
Sept. 4	303
Sept. 11	240
Sept. 18	220
Sept. 25	233
Oct. 2	152
Oct. 9	131
Oct. 16	130
Oct. 23	107
Oct. 30	246
Nov. 6	221

The CHAIRMAN. There is an indication that New York banks realized the danger of the situation of having an increasing amount of brokers' loans outstanding and they realized that if there was a readjustment they would be called upon to meet that emergency and there was an indication, from my own observation, that they were preparing very carefully to meet any emergency, which emergency arose in October. I think the New York banks were particularly farsighted and I was trying to ascertain, for the record here, whether they arrived at that conclusion on their own account, or whether they were admonished by the Federal Reserve Board or the Federal reserve bank at New York to get their house in order and keep the borrowings down and keep in as liquid a condition as possible. If you can give us any information on this subject, it will be helpful in these studies.

Governor YOUNG. I think the Federal Reserve Board realized that situation as evidenced by the February 6 statement. I know that the officials of the New York banks were thoroughly familiar with the situation, and while I can not speak for all of the New York banks, those that I talked with, I think, thoroughly realized the situation, and I have some publications of New York banks that appeared during that period clearly indicating that they had concern about the situation.

Now, the board's contact, of course, is not with the New York banks. Our contact is with the Federal reserve bank. Its contact, in turn, is with the New York banks. I could not make it as a positive statement, but I assume all those situations were discussed between the New York banks and the Federal Reserve Bank of New York.

Mr. BEEDY. Since there have been so many references to this February 6 statement of the Federal Reserve Board, may we have it in the record?

Governor YOUNG. It is in the record now, Congressman.

The CHAIRMAN. I think it is fair and should be said in this record, in connection with this discussion—and I think it will be shown by the records probably—that the Federal Reserve Bank of New York, through the assistance of New York banks, met this crisis in a far better manner than anyone, even though he had been a close observer, could have expected.

Governor YOUNG. I will be glad to make that statement for the record, Mr. Chairman.

The CHAIRMAN. I think myself the Federal Reserve Bank of New York functioned 100 per cent during the crisis, and had it not been for the very active cooperation of the Federal reserve bank in New York, in aiding the big banks of New York who had the responsibility on their shoulders of liquidating those brokers' loans in this stock-market crash, very serious consequences would have resulted.

Governor YOUNG. I should be very glad to make that statement for the record and I take your words in making it, Mr. Chairman.

The CHAIRMAN. I do not know that I have any further questions.

Mr. SEIBERLING. I was going to suggest that you cover the point of who constitutes this committee that handles that call rate situation. I should like to know that.

The CHAIRMAN. That is a rather voluntary committee. It is made up a great deal to do the job that is before them.

Mr. SEIBERLING. To whom are they responsible?

The CHAIRMAN. They are really not responsible to any one. They are a group of men who are chosen to do this job and have done it for many years. My own thought is that those men who are fixing that rate are doing a good job. I have the highest regard for the integrity of the men who meet each morning to fix the renewal rate.

Taking into consideration the various elements that enter into the money situation and so far as they are capable of doing the job, I believe they are doing an honest and consistent job.

Mr. SEIBERLING. I am not attacking their integrity. I am only attacking the results.

The CHAIRMAN. I would not want to express a thought as regards that, but as to the integrity of the men who comprise that renewal committee, with the information they have, I think they are honestly doing their job.

Mr. BUSBY. I have come to the place in the record, as I revise this transcript, where Governor Young told us he would insert the figures in regard to foreign loans made by the American banks. I understand that he has that prepared. I wonder if he will file that?

The CHAIRMAN. Are you ready to put that in, Governor Young?

Governor YOUNG. I want to furnish what I have, but this information comes from the Department of Commerce and is for the close of the year 1928. Those are the latest figures we can get.

The CHAIRMAN. The meeting is now adjourned until Friday morning at 10.30.

(Whereupon, at 4 o'clock p. m., the committee adjourned to meet at 10.30 o'clock, a. m., on Friday, April 11, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

FRIDAY, APRIL 11, 1930

House of Representatives,
Committee on Banking and Currency,
Washington, D. C.

The committee met in the committee room, Capitol, at 10.45 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. Governor Young, you have something that you would like to insert in the record.

Governor Young. This was something that was requested by the committee the other day, which shows the number and deposits of all banks in the United States located in places having a population of less than 25,000. The figures are given by geographical divisions.

The Chairman. Without objection, that will be placed in the record at this point.

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

In accordance with the committee's request, I have had compiled for insertion in the record figures showing the number and deposits of all banks in the United States located in places having a population of less than 25,000. These figures, by geographical divisions, are as follows:

	Number of banks	Deposits
New England States	750	$1,787,204,000
Middle Atlantic States	2,375	3,700,915,000
East North Central States	4,726	2,971,194,000
West North Central States	5,955	2,268,406,000
South Atlantic States	2,093	1,308,348,000
East South Central States	1,598	777,414,000
West South Central States	2,513	1,142,693,000
Mountain States	881	618,853,000
Pacific States	851	653,810,000
Total	21,742	15,228,837,000

Note.—Above figures were compiled from the January, 1930, Rand McNally Bankers Directory. Population figures were based on latest Census Bureau estimates.

The Chairman. Now, Mr. Strong.

Mr. Strong. Governor Young, would you favor nation-wide branch banking?

Governor Young. Not at the moment.

Mr. Strong. Why?

Governor YOUNG. I do not think that we are ready for nation-wide branch banking. I do not think we have the men trained technically at the present time, although, as I stated before the committee the other day, I believe that eventually there will be a demand for nation-wide branch banking. It may be 50 years from now.

Mr. STRONG. You think that when you get the men trained to handle it, it will come?

Governor YOUNG. I do. That is an opinion, Mr. Congressman.

Mr. STRONG. Do you think it will be a good thing for the Nation?

Governor YOUNG. Well, if I did not, I would not want to see it come.

Mr. STRONG. If we have nation-wide branch banking, that will be practically a monopoly of the money and credits of the Nation, will it not?

Governor YOUNG. I do not believe so.

Mr. STRONG. Why not?

Governor YOUNG. Because I believe there will be many nation-wide set-ups, rather than one.

Mr. STRONG. You mean that there will be competition?

Governor YOUNG. Strong competition, keen competition, between larger groups.

Mr. STRONG. How many groups do you suppose that there will be at the end of 50 years if we have nation-wide branch banking?

Governor YOUNG. Well, that would be making a guess that might embarrass me 25 years from now.

Mr. STRONG. I made it 50 so that it would not embarrass either one of us.

Governor YOUNG. I would put 50 as a minimum.

Mr. STRONG. Now, with the whole trend of Government and of business operations throughout the country toward centralization and consolidations, what would tend to hold back a monopoly of money and credit through having 25 or 50 separate units? What influence do you think would continue the competition so that we would have 25 or 50 independent units?

Governor YOUNG. I explained to the committee the other day that the deposits are really owned by the public, and if these monopolies which you anticipate should develop, they would be profitable and that would induce other people to go into the banking business.

Mr. STRONG. While I think it is true that a reasonably substantial independent unit may carry on against a large monopolistic organization, nevertheless a large organization generally controls policies and prices. Take the Standard Oil Co.; we have a lot of independent oil companies, perhaps as many as or more than the Standard Oil, yet the Standard Oil Co. and its kindred organizations set the price. When they say oil is 17.7 cents, everybody says oil is 17.7 cents. Would not the same rule apply to banking? If a great organization with 1,000 or 2,000 branches should set up certain policies, could any small organization oppose them? Would not all organizations fall in line with their policies?

Governor YOUNG. Would it not be their object to encourage the smaller organization?

Mr. STRONG. Why? They would be their competitors.

Governor YOUNG. I do not mean a small banker; I mean a small industry or any industry that is profitable. Is that not what has happened in countries that have the branch-banking system?

Mr. STRONG. I do not know. I did not get that kind of information from Canada when I visited there. I did ge it from a big banker when I talked to him, but the business men out in the small towns, not wanting to be quoted, seemed to be very much opposed to it and they thought that they were in a very serious situation. For instance, one of them pointed out to me that if his competitor should become interested in the parent bank or had associates interested in it, he might be in a very dangerous position.

Governor YOUNG. I have been informed, Mr. Congressman, that the Canadian banks lend small amounts to farmers, jobbers, wholesalers, and others in the agricultural territory of Canada. They have no objection to the small loan.

M·. STRONG. Let us take a nation-wide organization, with headquarters in New York. The men who are largely interested in that organization, the head bank, would also be largely interested in the railroads of the country. Suppose that their organization of railroads wanted to acquire a competing line; do you suppose that they would permit the extending of credit to that railroad which that railroad would get if such a combination of wealth did not exist? I just mention that as one of many things that might happen.

Governor YOUNG. That is, a railroad wanted to purchase a competing line?

Mr. STRONG. Suppose that a great group of railroads that was owned by the same group that owned the parent bank, or controlled it, wanted to get a certain railroad; could they not withhold credit and get it practically at their own price?

Governor YOUNG. Then, could not that other group go to the public with a bond issue and raise the money?

Mr. STRONG. It would be pretty hard to sell bonds against that kind of an influence, I should think.

Governor YOUNG. It has been done for 50 years.

Mr. STRONG. But we have not had a great monopoly of banking for 50 years. We have had practically only independent banking.

You know that we changed the form of bond of the farm loan banks and made it a consolidation bond because we found that here in the East, north of the Ohio and east of the Alleghenies, they were discriminating against the Federal land western banks; they would buy the bonds of the eastern banks, whereas the western banks was having trouble selling their bonds, and so we consolidated the bonds to be issued by the 12 Federal land banks to get rid of that danger that we saw confronting us.

Governor YOUNG. Well, no monopoly developed.

Mr. STRONG. It was not a monopoly; perhaps it had not developed to that point, but it was getting to the point where we could see that we were going to have trouble selling our bonds of our western banks.

Governor YOUNG. It has all been consolidated to a certain extent, Mr. Congressman, in an organization that bears many of the earmarks of a branch organization; and I believe, for the benefit of our western people that you and I are interested in——

Mr. STRONG. Yes, governmental control; but you are going to put this monopoly in private interests, privately controlled.

Governor YOUNG. I am old-fashioned enough to believe that this country can not continue indefinitely with only one section of it prospering. I believe it all has to prosper.

Mr. STRONG. I agree with you.

Governor YOUNG. And I can not believe that any such concentration of wealth as you anticipate—even though it should develop to the point that you are inclined to believe it will develop to, that is, a monopoly—will ever be so short-sighted as to neglect the requirements of the balance of the country that makes that center possible.

Mr. STRONG. Well, human nature is rather selfish. Through the generations,—the centuries,—we finally arrived at the conclusion that we could not put governmental power in the hands of individuals without having autocratic rule, so we built a republic in this country so that the government might be in the hands of the people, that the people might be sovereigns, and in order that they could change the form of government in any way they wanted to. We did that because we realized that men were selfish and, when given power, would take advantage of it.

Now, you propose to have nation-wide branch banking, and, as I get your viewpoint, you hope that men will be unselfish enough so that they will not combine to control the money and credits of the United States, or that through competition they will avoid combinations of capital that will practically effect a monopoly of the money and credits of the country.

Governor YOUNG. Let me answer it this way, Mr. Congressman: If those monopolies which you anticipate should develop, to the detriment of the interior of the country, particularly the agricultural and livestock sections and the interior manufacturing sections and mining sections, I agree with you that that would be bad; but I can not bring myself to believe that that will happen.

Mr. STRONG. Well, of course, the great handicap in my mind to the agricultural regions of the country has been a lack of capital at reasonable rates. When I went to Kansas they were loaning money at 12 per cent, and sometimes 18 per cent and 24 per cent. Then laws were passed against usury and finally got the rate down to 10 per cent, and the ruling rate out there now is 8 per cent, which is a pretty heavy tax upon capital to be used for agricultural purposes. Then we created the farm loan banks and the intermediate credit banks in trying to relieve that situation, and, with the intermediate credit banks, we tried to set up a plan whereby farmers could go to their banks and put up their paper to be discounted by the bank at the intermediate credit banks, so that they could borrow money at 7 per cent, but none of the banks do it; they maintain an 8 per cent rate and they do not use that system that we set up because it reduces their rate of interest. Now, we still have that handicap in the West.

Now, if you give men the right to set up and control a monopoly of banking, will they not continue that system?

Governor YOUNG. Mr. Congressman, under a unit system in the State of Kansas, the unit bankers had quite an influence in the legislature in reference to rates; but, even with his influence, as you point out, the rate has come down from 24 per cent to 8 per cent, the prevailing rate, and to 10 per cent, the contract rate. The probabilities are that in the State of Kansas to-day an agricultural loan bearing an 8 per cent rate is much more profitable than the 24 per cent rate that existed 30 years ago.

Now, obviously, the unit banker has a certain influence in a legislative way; and, although your 10 per cent rate still prevails in

Kansas, your unit banker charges 8 per cent on a average. If these other organizations that you speak about existing outside of the State of Kansas should become so strong that they could put a 10 per cent rate in, the people of your State would fix a contract rate of 8 per cent, or 7 per cent, or 6 per cent, to outside sources much quicker than it would to your local people. So I think the possibilities of any large corporation charging unreasonable rates are very far removed.

Mr. STRONG. But fixing the rate so low might not get the money.

Governor YOUNG. Then the rate is wrong and you have to put it up; that is all.

Mr. STRONG. That is what happened. We paid those big rates when you were paying 6 per cent down here, and now we are paying 8 per cent when you are getting money for 4 per cent and 5 per cent.

Now, here is a combination of banking, through branch banking or group banking, that gets together only for one purpose, and that is to increase its income and protect future income and to build up a business that will be more profitable. Do you suppose that, given that power, they are going to be so magnanimous as to reduce the rate in the West?

Governor YOUNG. I think their profits will come through simplification of organization and operation rather than an increase in rates charged to borrowers.

Let me illustrate what I have in mind. You take a small bank in Montana, locally owned. It can, and probably does, charge the legal rate in that State of 10 per cent on a good chattel loan. It would be extremely difficult for a large set-up in Minneapolis to charge that same rate in my opinion. Public sentiment will put that rate down.

Mr. STRONG. But when one group of banks controls the credit and the money, how can public sentiment put the rate down? If you want the money, you have to pay for it.

Governor YOUNG. Because they have two groups there at the moment, and the strongest kind of competition, very keen competition. When they can only get 3 or 3½ or 4 per cent on call money in New York and they have surplus funds, they will go into the interior and make some of these chattel loans at less than 10 per cent.

Mr. STRONG. But if a pinch came and they wanted money in New York, they would put up that rate to 4, 5, or 6 per cent?

Governor YOUNG. They would.

Mr. STRONG. And they would bring the money of the country to New York?

Governor YOUNG. But still your State law prohibits them from going above 10 per cent in Montana.

Mr. STRONG. Well, as I get your idea, Governor, it is that if we permit branch banking in restricted trade areas, that eventually it is going to be nation wide?

Governor YOUNG. In my opinion, Mr. Congressman.

Mr. STRONG. Now, suppose that we had nation-wide branch banking in 50 groups or trade areas each dominating and controlling such trade area; do you not think that would be pretty dangerous to the Federal reserve system?

Governor YOUNG. No, sir.

Mr. STRONG. Would they have to go to the Federal reserve system? Could they not go to each other? Could they not have a trade agreement or a gentlemen's agreement with each other without going to the Federal reserve system?

Governor YOUNG. They could if they had sufficient funds, and probably would; but there would always be a time in America when there would not be sufficient credit for those groups to trade between themselves, and the Federal reserve will have to release credit and will have to release currency to take care of seasonal requirements and to take care of seasonal emergencies. I am firmly convinced that the larger those set-ups are the more necessary will they find membership in the Federal reserve system.

Mr. STRONG. I think that is true if they are not large enough to control the money and credits of the United States, but here are 50 groups controlling the banking of the United States. Now, you have pointed out that little bankers out in the West had influence enough in the legislature to at least influence the laws of their States, and if that is true—and I think it is—and you have 50 great groups in the United States controlling all the banks, would they not have power enough to influence the Federal reserve system?

Governor YOUNG. Not with 119,000,000 people left that you say would be harmed, or that might be harmed.

Mr. STRONG. But the 119,000,000 are going to allow the banking industry of the United States that handles their money and credit to form consolidations so that they will be reduced to about 50 groups. If they would work together, I do not see how the influence that they would have could be kept from dominating and controlling the Government and the Federal reserve system, too.

Governor YOUNG. Those 50 banks?

Mr. STRONG. Yes.

Governor YOUNG. I do not think so.

Mr. STRONG. I meant, those 50 groups.

Governor YOUNG. You have six large banks in England, and I do not think they control the Bank of England and dominate its policies in any particular.

Mr. STRONG. But the Government has a lot of influence in the Bank of England, more than we would have in these 50 groups that we have been talking about.

Governor YOUNG. Well, the Government, through the Federal Reserve Board, has some influence with the Federal reserve banks.

Mr. STRONG. But here are 50 groups bigger than the Federal reserve system, controlling more money and credits than the Federal reserve system.

Governor YOUNG. Under the present law, they could go as far as the Federal Reserve Board and they could go no further. Is that not correct?

Mr. STRONG. Yes; but my idea is that they would dominate and control the Federal reserve banks and the Federal Reserve Board. You will remember that the Second National Bank, with its branches and the monopoly given it by its Federal charter, was so strong in this country that it dominated and controlled Congress, loaning money to Members of Congress and the great newspapers of the country until, although a national election campaign decided to the contrary, were able to force through Congress a renewal of their charter.

Nothing but the backbone of Andrew Jackson stopped by a veto the extension of that charter.

Governor YOUNG. I should regret it, of course, Mr. Congressman, if the Federal Reserve Board should ever get to a position of that kind, or the Congress of the United States. When the Second Bank of the United States did get to that position, of course, the bank was terminated.

Mr. STRONG. The present Comptroller of the Currency, having espoused branch banking, advocates as a restriction that it be limited to trade areas? I am unable to tell just what he thinks their territory should be, but he uses the term of "trade areas." Now, your belief is that regardless of such limitation, eventually we will have nation-wide branch banking.

Governor YOUNG. I may be entirely wrong, Mr. Congressman, and he may be entirely right, and we hope that these investigations will bring out what is best. I agree with the comptroller entirely in so far as the present situation is concerned that if a trade area can be described, as I think it can be, it would be better to confine branch banking to that trade area in an attempt to permit branch banking to build up in a systematic way and not build up in a way that is too rapid for us to operate at the moment. Now, if he feels that that is as far as it should ever go, and I feel that eventually it will become nation wide, that is a difference of opinion; that is all.

Mr. STRONG. Well, as I understand it, then you both are agreed on this proposition, that for the present it would be better to limit it to trade areas?

Governor YOUNG. I do.

Mr. STRONG. Is it your idea, then, that men are going to be less selfish and more patriotic 50 years from now so that they can be trusted with nation-wide branch banking?

Governor YOUNG. I do not like to put it that way, Mr. Congressman.

Mr. STRONG. I know, but there is a difference; you and the comptroller agree that we ought not to have nation-wide branch banking now, that first of all we should build up trade area branch banking, but you believe that eventually they will break down those trade areas and we will have nation-wide branch banking?

Governor YOUNG. I think so; yes.

Mr. STRONG. Why do you think so?

Governor YOUNG. My position to-day, at the moment, Mr. Congressman, is that technically we are not prepared to operate a system of that kind.

Mr. STRONG. Do you think that the men are not experienced enough so that at the present time it would not be safe to trust them with nation-wide branch banking, so that you propose to build up with trade area branch banking?

Governor YOUNG. I would prefer to see it approached through trade areas.

Mr. STRONG. That is what I am afraid of, that it is going to be approached in that way.

Governor YOUNG. I think, Mr. Congressman, that it is now being approached through the group banker.

Mr. STRONG. Yes; I know there is a very decided effort on the part of capital—and everybody knows it—to break down the independent bank and finally come to nation-wide branch banking. I can see that coming and, of course, this group banking is helping their cause.

Governor YOUNG. I think it is a little more than that, Mr. Congressman. I do not think this demand comes entirely from the cities. I think it comes from the country to a certain extent, so much so that the commissioner of banking of the State of Minnesota in a public statement yesterday advocated branch banking. He stated that there are 154 communities in the State of Minnesota to-day without banking facilities, many of which do not need banking facilities and many of them that do. He advocated the extension of branches into those communities rather than a revival of the $10,000-unit banks. I can not help but agree with him, that he is right.

Mr. STRONG. And I can agree with you that more and more our officials are seeking banking through a branch-banking class. For instance, in recent years we had the Comptroller of the Currency come before this committee and make a very eloquent and splendid statement against branch banking, but he thought that we could limit it to the city where the parent bank was located, and we passed a law agreeing with such position. Now comes the present Comptroller of the Currency and says it ought to be extended to trade areas, and following him, you, as the Governor of the Federal reserve system say that eventually, within 50 years, we will have nation-wide branch banking. That is what I am worrying about.

Governor YOUNG. Mr. Congressman, the probabilities are that 10 years ago or 6 years ago I probably would have said the same thing that the Comptroller of the Currency Dawes said at that time, but conditions are changed.

Mr. STRONG. Then the influence in favor of branch banking is gradually having an effect.

Governor YOUNG. Conditions are having their influence on their position, as they are on mine, yes.

Mr. STRONG. Do you not think that they are controlling the conditions?

Governor YOUNG. The Comptroller of the Currency?

Mr. STRONG. Oh, no; the men who control and dominate the money of the country, and that it is their influence that is bringing about the conditions which are causing the officials to change their position?

Governor YOUNG. Well, if they are bringing those about for the betterment of the country, obviously I can agree with them—I mean, in my opinion.

Mr. STRONG. I will agree with you that if they are doing it for that purpose and those men should always continue in that mind, it might be a good thing, just like I think a monarchy would be more economical and a good kind of a government if the monarch were always just and unselfish and had the interests of the people at heart, but we found through the generations that that does not result, and consequently we have come to a people's government, which is much more expensive and inefficient, in order to keep selfish interests from dominating and controlling.

Now you propose to gradually increase a system that you admit within 50 years will bring about nation-wide branch banking, controlled by perhaps 50 groups. To say that those 50 groups will be unselfish and have only the interests of the people at heart seems to me to be kind of going against the rules of human nature as we have known them in the past.

Governor YOUNG. Well, I just would like to correct that: I said it would probably take 50 years and that the minimum would be fifty groups.

Mr. STRONG. Well, if within three or four years the officials of our banking system of the United States have changed from a belief that branch banking ought to be limited to the city where the parent bank is located to a position where it is believed that there ought to be branch banking limited to trade areas, is it not reasonable to suppose that nation-wide branch banking will come in less than 50 years?

Governor YOUNG. You have had an expression from two officials, from the Comptroller of the Currency and myself. What my colleagues may say to you or what others may say to you in the official life of the Government or in the State governments I do not know. I have had a feeling for some time that I have been almost alone in my opinion.

Mr. STRONG. But this committee, and I think the country generally, has a good deal of confidence in your opinion.

Governor YOUNG. I hope so.

Mr. STRONG. I think they do, and your opinion is that within 50 years we will have nation-wide branch banking?

Governor YOUNG. Probably.

Mr. STRONG. I am only pointing out that if some influence or some conditions or whatever you may call it have changed the views of the officials within three or four years from believing that branch banking should be confined to the city where the parent bank is located to believing that it should now be confined to trade areas, it does seem to me that perhaps nation-wide branch banking will come in much less than 50 years.

Governor YOUNG. Well, that is a frank opinion, Mr. Congressman, and I will have to confess that it is not a very popular one.

Mr. STRONG. Well, it is not popular with me.

Now, I would like to get to this present situation. The Comptroller of the Currency evidently thinks, and you seem to think, that branch banking should be restricted now to trade areas.

Governor YOUNG. That is correct.

Mr. STRONG. And Congress is to be asked to set up a definition of those trade areas. What is your suggestion to this committee as to what those trade areas should be?

Governor YOUNG. I have stated before the committee several times, Mr. Congressman, that I can not at the moment define a trade area. It would be very easy in certain Federal reserve districts and hard in others. I think it would be very easy to define a trade area in the first Federal reserve district, the New England district, while in your district in Kansas it would be extremely hard to define it, and there would be much overlapping at Omaha, Wichita, Kansas City, Tulsa, and Oklahoma City.

Mr. STRONG. And when we reached Chicago and St. Louis, especially Chicago——

Governor YOUNG. It would be difficult there.

Mr. STRONG. What would be the situation in the East? Would Boston and Philadelphia have separate trade areas, or would they be in the trade area of New York?

Governor YOUNG. These are impulsive thoughts, Mr. Congressman.

Mr. STRONG. I appreciate it.

Governor YOUNG. You would have to sit down at the map and consult with the local people and attempt to work out something, but I would say that the three of them would be separate trade areas.

Mr. STRONG. You would not think that New York would finally dominate and control the three?

Governor YOUNG. I do not think so; not at this time.

Mr. STRONG. How many trade areas do you think there would be in the United States if we would agree with the comptroller's idea, and yours?

Governor YOUNG. As near as the Federal reserve system has been able to define those trade areas through its branch districts, it would be 25, and then, of course, there is much overlapping in that, and there is a larger trade area covering those trade areas. That is represented pretty well by the 12 Federal reserve districts.

Mr. STRONG. And we would have perhaps Boston, Philadelphia, and New York, the three of them, out of the 25?

Governor YOUNG. There would be 37, Mr. Congressman, if you include the territories of the head offices of the Federal reserve banks.

Mr. STRONG. Would or would not that necessitate the changing of the districts of the Federal reserve system?

Governor YOUNG. It might. We have changed the district lines on two or three occasions.

Mr. STRONG. Would you increase the number of Federal reserve banks?

Governor YOUNG. You can not.

Mr. STRONG. Well, Congress can.

Governor YOUNG. Yes.

Mr. STRONG. Would you recommend to the Congress that they do that, or do you think that would finally follow?

Governor YOUNG. Mr. Congressman, you are pressing me on a question that I really have not made up my mind on yet.

Mr. STRONG. I do not want to do that.

Governor YOUNG. I am afraid that——

Mr. STRONG. I do not want to embarrass you at all. I am just intensely alarmed about the extension that you propose. I just want to get all the information I can, and I would rather have your opinion on it than my own.

Governor YOUNG. It is a bit embarrassing to say to you that I can not give you that information yet. I expect some day to be able to recommend something.

Mr. STRONG. Then if we had 35 or 37 trade areas in the United States, or any set number, the growth and improvement of the country would finally, in your opinion, demand more trade areas—an increase in the number of trade areas?

Governor YOUNG. It probably would.

Mr. STRONG. In these trade areas group banking, unless restricted, would finally dominate and control the banking in those trade areas, would it not?

Governor YOUNG. Group banking has a possibility of proceeding too rapidly, in my opinion.

Mr. STRONG. Do you think it ought to be checked?

Governor YOUNG. Not unless you offer something in substitution.

Mr. STRONG. You offer branch banking—that is the idea?

Governor YOUNG. That is my idea.

Mr. STRONG. Are you going to restrict those banks so that there can be no consolidation of interests by group banking?

Governor YOUNG. I would; yes.

Mr. STRONG. You would absolutely fix those branches and those trade areas so that they could not extend by any combination of interests, out beyond those trade areas?

Governor YOUNG. That would be my solution of the difficulty at the present time, if such a thing is possible.

Mr. STRONG. Why do you think that eventually the adoption of that system would spread into nation-wide branch banking?

Governor YOUNG. Because as men became trained in the operation of these smaller groups, they would be in position to expand further.

Mr. STRONG. And they would want to do so?

Governor YOUNG. I believe so.

Mr. STRONG. Then, whether we will have trade area branch banking or nation-wide branch banking simply depends on the time when we will have men trained in nation-wide branch banking?

Governor YOUNG. I believe so.

Mr. STRONG. Now, do you think there will ever be men created on this earth who, after they become efficient in nation-wide branch banking and achieve it, will not be selfish enough to look after their interests as against the interests of the country?

Governor YOUNG. They will have plenty of competition, Mr. Congressman, so I do not believe that is possible.

Mr. STRONG. Just let me go into this a little. Suppose that we set up 37 trade areas, that by law we restrict them absolutely. Yet your opinion is—and I respect it—that eventually out of those 37 trade areas will grow nation-wide branch banking, when the men are trained and desire nation-wide branch banking?

Governor YOUNG. I do.

Mr. STRONG. And the only thing that will cause those men to break down our law, to change our law of trade area branch banking, will be the ability to handle nation-wide branch banking and their influence to change the law, will it not?

Governor YOUNG. Well, the public influence to change the law.

Mr. STRONG. You explained that the bankers in the States have had that influence in their legislatures to change the law. Now you are going to have trade area branch banking, and then you are going to build up men of such experience that they will have nation-wide branch banking ability and eventually achieve it. It will not be by the influence of the people; it will be by the same influence of the National Legislature that has been exercised and used on the State legislatures. It will not be the demand of the people.

Governor YOUNG. Mr. Congressman, a banker has two classes of customers, depositors and borrowers, and the number of depositors always exceeds the number of borrowers. If a branch system is created in this country, even in a small trade area, and the depositor gets the protection that he has not been given for the last 10 years, and that extends to a larger trade area and those depositors get the protection that they have not been given previously (and that I believe they can get it under a branch system), their influence is going to be very far-reaching as to whether or not that extends to a nation-wide branch banking system.

Mr. STRONG. Yes; but you do not think that the depositors are ever going to control these groups, do you?

Governor YOUNG. The depositor is the man that makes it possible.

Mr. STRONG. He is the man that has the money to deposit, but he has to put it in these banks. These banks are already in this country, although they have not yet achieved their objective, of trade area branch banking; they already have such an agreement when you go in and deposit the money in the bank whereby they say, "If you do not deposit a certain amount, we will have to charge you a fee, and if you want to borrow money, you must leave a part of it in the bank." So the depositor will have no choice but to put it in one of those banks. He can not exercise any influence; he does not now.

Governor YOUNG. If the depositor is not satisfied with the solidity or the policy of the bank, obviously he does not deposit there at all. If he is a depositor and these groups or branch banking organizations are unreasonable with him, obviously he has an investment market that extends all over the world, so that he can do what he wants to do with his money. They are compelled, through the depositor and his power in the whole situation, to make things attractive to him. They have got to compete, and if they do not make things attractive to him, they lose the depositor.

Mr. STRONG. Yes; the depositor goes to his bank and says, "I do not like that new rule you have; I will take my money to some other place," and the banker says, "All right." The depositor goes over to the other bank and he is confronted with the same rule. He can not dominate and control and dictate to that bank as to what their rules shall be; they are going to dictate to him.

Governor YOUNG. From what we hear from the bankers and from what we have heard from the bankers in the last 10 years, the competition that they had through Government bonds and the competition that they had through bond houses, as well as the competition that they had, if you will, with the call loan money, leads me to believe that the depositor has become a very important factor in this entire situation.

Mr. STRONG. But unless he organizes into groups himself, he will exert no influence.

Governor YOUNG. There has been no organization for the last 10 years; there was no organization in so far as call loans were concerned.

Mr. STRONG. But when he withdraws his deposit and goes to the next bank and he meets the same condition, what can he do?

Governor YOUNG. He withdraws his deposit and he has the entire investment world to take his money to.

Mr. STRONG. Yes, but perhaps he is not a judge of what those investments mean; perhaps he does not want to bury his money in those investments, but he just wants to leave it in the bank. It may be $5,000, $10,000, $50,000, or $100,000. Maybe he wants to leave it there against the seasonal requirements of his business, and if he does not like the terms offered him by the bank and he goes to the next bank he will probably meet the same terms.

Governor YOUNG. I will again repeat that if conditions ever get so bad as that in this country, I will agree with you on that; but I do not think they will.

Mr. STRONG. I hope that your thought is right, but my fear is that they might, and I think that the Congress of the United States ought to so regulate the financial policies of the country and make such laws that the men who handle the money and credit of the United States will never dominate and control it, because I fear that they will not be unselfish when they get that power.

Governor YOUNG. Well, I think, Mr. Congressman, that one of the great steps in that direction is the Federal reserve system, and that is still with us.

Mr. STRONG. I agree with you, if we do not build up organizations of banking that overpower and dominate the Federal reserve system.

Now, in your opening remarks to the committee, you referred to our changing bank structure. By that do you mean the tendency toward group and chain and branch banking?

Governor YOUNG. Yes, sir.

Mr. STRONG. Who should control those changing conditions, the banks or the Congress?

Governor YOUNG. I believe the Congress, but it has gone so far, Mr. Congressman, that it is going to develop many complications in attempting to control it.

Mr. STRONG. I agree that the banks are bringing about those changes.

Governor YOUNG. They have under State laws; yes.

Mr. STRONG. Now, if the Congress does not take some drastic action, under your thought, we are going to proceed with branch banking and eventually we will have nation-wide branch banking?

Governor YOUNG. Well, group banking; nation-wide group banking; yes. Under the present law we now have——

Mr. STRONG. And if we control the group banking, we are going to have nation-wide branch banking?

Governor YOUNG. If you control the group banking, I think it has gone to a point where you must offer something in substitution.

Mr. STRONG. That is, we have to abandon in the United States the policy and idea of unit banking?

Governor YOUNG. In my opinion; yes, sir. I do not mean by that that the unit banker will necessarily be eliminated.

Mr. STRONG. Well, the former Comptroller of the Currency came to us and said, "Unless you have branch banking in cities like New York, Detroit, New Orleans, and San Francisco, where they are permitted to have branch banking under State law, you are going to destroy the unit banker; they are going to put branch State banks all over the city of New York, and if you are to maintain the Federal reserve system and the national banking system you have got to permit the national banks to have branches in the cities where the parent banks are located," and we acceded to that.

Governor YOUNG. Has not that been for the benefit of the depositor and borrower in those districts?

Mr. STRONG. I do not know. It has been followed up with combinations of great banks. The combinations are increasing, and the unit and individual private bankers are being driven out.

Governor YOUNG. I believe that it has been a benefit.

Mr. STRONG. To whom?

Governor YOUNG. To the depositor and the borrower.

Mr. STRONG. Have interest rates to the depositor been increased or decreased?

Governor YOUNG. Well, I do not know. I would say it is about the same.

Mr. STRONG. Is it not a fact that generally throughout the country the man who deposits money in a bank is being asked to take a smaller rate of interest, and is that not the tendency?

Governor YOUNG. That happened in the Northwest in 1921 clear through until 1927, under the unit banking system.

Mr. STRONG. Yes; and that is a gradual tendency, is it not?

Governor YOUNG. In the East there seems to be a tendency on the part of the mutual savings banks to pay a higher rate.

Mr. STRONG. I do not know about that.

Governor YOUNG. But the rate 8 or 10 years ago was an average possibly of 4 per cent.

I will ask Congressman Luce to correct me if this is not true. The mutual savings banks have had a tendency to increase in the last 10 years, rather than decrease their rate to depositors.

Mr. LUCE. Absolutely.

Mr. STRONG. But the regular banks that are in these combinations, group and chain, have not increased the rate to their depositors, have they?

Governor YOUNG. Nowhere that I know of.

Mr. STRONG. Then it has not been for the benefit of the depositors to have these groups formed, because they are getting a smaller rate of interest.

Governor YOUNG. I was speaking about his protection, rather than the interest return he received.

Mr. STRONG. I know; but you might give him ever so much protection and no return.

Governor YOUNG. Mr. Congressman, I can pay 3 per cent and give a depositor security in an institution. I can pay 4 per cent and break that institution.

Mr. STRONG. But suppose that these combinations would tell the depositor that they could give him security at 2 per cent, but not at 3 per cent?

Governor YOUNG. Then the depositor can still go to the postal savings bank or to the United States Government bonds or to innumerable well-seasoned bonds throughout the United States and get a much higher rate than 2 per cent.

Mr. STRONG. But the average depositor, except the big fellow, throughout the country, does not deal in bonds.

Governor YOUNG. I believe that many of them have become security buyers.

Mr. STRONG. Yes; many of them have, possibly, but I am talking about the poor depositor in a small bank. He puts his money in there against the seasonal requirements, and does not want to put it in bonds, and he used to get 4 per cent where he is now offered 3. In some places he is not offered anything; I know of banks that say, "We have too much money; we will not pay a cent on deposits."

Governor YOUNG. My experience in the commercial banking business, Mr. Congressman, was that a man that deposited seasonally was not paid any interest. I do not think he is to-day in the unit bank, and I do not think he is in your chain or group bank.

Mr. STRONG. If he is not paid any interest on a deposit, and in addition to that he is asked to maintain a certain amount of money in the bank, if he is allowed to put his money at all, he does not have the accommodation he used to have, does he? It is getting worse all the time.

Governor YOUNG. That has developed under the unit banking system, Mr. Congressman, and one of the faults of the unit banking system was that they would take an account of any kind, even though a man only maintained a balance of $5 or $10. Experience has shown that, even in those small country banks, if there is a depositor who maintains a balance of less than $200 on a regular checking account, that account is handled at a loss. I do not think you can ask any banker to operate at a loss. The result was that many of the unit banks in the ninth Federal reserve district realized that that was a source of loss to their institutions, and they put on a charge of 50 cents or $1 a month; and in my opinion they were entirely within their rights when they did put that charge on.

Mr. STRONG. Then that is under the policy that unless the banker makes money out of the little depositor, the depositor is entitled to no service?

Governor YOUNG. But he gives him a service.

Mr. STRONG. But not unless he charges him?

Governor YOUNG. I do not think he should give it at a loss or gratuitously.

Mr. STRONG. Then through this development in banking that has been going on, we have reached the point where the banker is going to have a profit upon every item of his business?

Governor YOUNG. Why shouldn't he?

Mr. STRONG. Other businesses do not do that, do they?

Governor YOUNG. Why shouldn't they? They should.

Mr. STRONG. Simply because it is rather a hardship upon the little depositor and the little business man and the little individual. The railroads claim that they do not make any money out of their passenger service, but we compel them to run passenger trains because of the franchise that is given to them to operate railroads. Now, if we do not have any more control over them than we apparently have been having over the banks, if they can build up combinations, the time will come when they will say, "No, we must have a profit out of every service we render."

If that system is continued, it means monopoly, and combinations are going always to continue to make a greater hardship upon the people.

The CHAIRMAN. May I ask a question there?

Mr. STRONG. Yes.

The CHAIRMAN. Governor, a suggestion was made here, I think by Mr. Seiberling or some one earlier in these hearings, in regard to introducing facilities for service to these rural communities in the post offices. Now the post offices are legalized to receive savings deposits up to $2,500, and in that connection I understand there is pending here in one of the committees a proposal to increase the limit which one can deposit in the savings end of the post offices up to $5,000. Inasmuch as the post offices are also authorized to issue money orders, I am wondering, in connection with your suggestion here that we are headed for group banking and eventually nation-wide branch banking, which would indicate the coming of larger groups and perhaps of less service in rural communities, whether you would advocate an enlargement of the facilities of post offices to enable these people in remote districts of the country to have some facility whereby they could pay their bills by checks on the post office, after having first deposited their money there.

Governor YOUNG. They have that facility now.

The CHAIRMAN. They have the facility of drawing checks against their accounts?

Governor YOUNG. No; but they have the facility of buying post-office money orders.

The CHAIRMAN. Apparently we are getting to the point where these rural communities are going to be deprived of banking facilities, and I am wondering whether you would advocate the enlargement of the facilities of the post-office system so that a farmer could draw his own check against the post office in his locality and in that way facilitate the settlement of his necessary transactions? I am prompted to ask that because of the questions which have been asked you by Mr. Strong as to the attitude of the banks in refusing to take small accounts without paying a service charge.

Governor YOUNG. I would not.

The CHAIRMAN. You would be against that?

Governor YOUNG. It would be a tremendous cost to the United States Government on which it would get no profit. It costs the Federal reserve system in the neighborhood of $10,000,000 a year to handle checks gratuitously.

Mr. STRONG. And that has been saddled by the banks onto the Government.

Governor YOUNG. The banks say it is the other way.

Mr. STRONG. But the banks in the cities where the Federal reserve or its branches are located are escaping their former costs in the way of collection charges.

Governor YOUNG. Not at all.

Mr. STRONG. Why, the national banks do not charge for collections now, do they?

Governor YOUNG. Many of them do.

Mr. STRONG. But those exchanges are made by the Federal reserve system now; those clearing-house exchanges?

Governor YOUNG. Yes.

Mr. STRONG. At the expense of the Treasury?

Governor YOUNG. At the expense of the Federal reserve banks.

Mr. STRONG. But if that money remained in the Federal reserve system and if they collected the charges and were charging the banks for that service that the banks used to have to pay for, then the excise tax to the Government would be increased, would it not?

Governor YOUNG. That is correct.

Mr. STRONG. Then the Government is paying it.

Governor YOUNG. We maintain that that is one of the services that we give to the banks.

Mr. STRONG. Yes; at the cost of the Government.

Governor YOUNG. At the cost of the banks. The banks furnish the reserve balances that permit the handling of these checks.

Mr. STRONG. But if a profit is made by these Federal reserve banks after the 6 per cent is paid and if you do not take the cost of making those collections out of the Federal reserve balances, there is that much more left that goes to the Government.

Governor YOUNG. I know, but if one-third of the banks of the United States join the Federal reserve system in contributing the capital and the reserve, they are entitled to some service.

Mr. STRONG. They get it, do they not?

Governor YOUNG. That is what I say; they get it; they furnish the funds that make these profits possible. The Government does not furnish the money.

Mr. STRONG. Together with the fact that they can offer eligible paper and get money without interest?

Governor YOUNG. Yes. Now, there is a strong desire that the member banks get a larger return of the profits of the Federal reserve system, and I am in agreement with that.

Mr. STRONG. I know, but at the present time the banks in the cities where there are Federal reserve banks or branches get that service free that used to cost them thousands of dollars.

Governor YOUNG. It did not cost them anything in the past; they passed that cost back to the depositor in a great majority of cases. This has been a relief to the public of America at the expense of the banks.

Mr. STRONG. Well, in my own city competition brought about no charge for the collection of checks long before that, so that our people did not get any relief. The banks used to take our checks and pay at their own expense the cost of collection, and now the banks in the cities where there is a Federal reserve bank or branch save that expense; they have their checks cleared without cost.

Governor YOUNG. In your home community, Mr. Congressman, you are speaking about the foreign checks that you deposit with your local bank?

Mr. STRONG. Yes.

Governor YOUNG. How about the checks that foreign banks got on your local bank previous to the passage of the Federal reserve act; did they charge to collect and remit on those checks?

Mr. STRONG. It depended on how strong the competition was. Sometimes they did and sometimes they did not.

Governor YOUNG. Now that it has been eliminated, your little local banker is the loser. There is no difference as far as the city bank is concerned, and the public has gained an advantage.

Mr. STRONG. Yes; he is the loser and he is deprived of a large part of his earnings.

Governor YOUNG. And he is a member bank. So I still maintain that if $10,000,000 is paid by the banks of the United States, they are the losers, the public is the gainer, and the Government does not enter into it at all.

Mr. STRONG. Well, I have to disagree with you on that, because if that was paid it would eventually go into the Treasury of the United States, but if it is not paid it is paid out of the profits of the Federal reserve system, which simply holds back that much of those profits that ordinarily would go to the Federal Treasury under the excise tax.

Governor YOUNG. That is true. The Federal reserve system could put a charge on every check it handled and charge that back to its member bank, and if the member bank would not stand it it would pass the charge back to its depositor.

Mr. STRONG. They did not in the past do that in a great many cases.

Mr. WINGO. May I interrupt you gentlemen right now? Investigating another question, within the last few weeks, I find another time they charged their depositors for the deposit of a foreign check. They charged them not only interest on the check for the period between the time they are credited with it and the time the amount actually comes in, but they also charged them a nominal exchange fee.

Governor YOUNG. Correct.

Mr. WINGO. In other words, it used to be that the country bank charged for remitting the exchange on the bank—he is required to perform that service free now and not even allowed postage; that is, he is not allowed to make expenses to say nothing of profits—and whereas he is compelled to lose that, the bankers in the cities where are located the jobbers and wholesalers, are still collecting exchange unless the question of competition forces or compels them to forego it. I am prepared to introduce documentary evidence to that effect if this is doubted.

Governor YOUNG. I will confirm the statement.

Mr. WINGO. So, instead of the business of America being relieved of this burden of exchange, it is just shifted and instead of the country banker getting it, the bankers in the centers where the jobbers and the shippers are located, are getting it. The country bankers used not to get it where there was perhaps competition that compelled him to forego it, but now he is compelled to render all of that service free, but, on the other hand, the jobber and the wholesaler and others, in a great many instances, have to pay their own bank for collecting the foreign checks.

Governor YOUNG. They always did, Mr. Congressman. There is just this difference. Heretofore the country banker charged for cashing his own checks, and to-day the city banker and the banker in the larger centers charge for advancing credit on a check that is drawn on some one else that it may take 5 or 10 days or two weeks to collect.

Mr. WINGO. The country banker did not charge for cashing his own checks. He agreed to do that when presented across the counter, but he charged for remitting exchange—where he had to send it to another point. That is what you had in mind?

Governor YOUNG. Yes.

Mr. WINGO. He charged for the remittances and not for his check. It was not permitted under the law. If he had undertaken to discount his own check, under the laws of many States, he would have been put into the hands of a receiver.

Mr. STEVENSON. Will the gentleman from Kansas permit me to follow that with one suggestion?

Mr. STRONG. Go ahead.

Mr. STEVENSON. That very suggestion appeals to me more strongly than any other feature of the suggested change by the Comptroller of the Currency, and that is the whole trade area of the National Bank of Philadelphia should have the right to put branches in the whole trade area. Then a man who has one of these checks and has his money deposited in a branch of Bank A, and the head of the branch A or another branch is in a town where he is paying his bills, he deposits in one bank in one town and sends a check to another town to another bank and, being all one system, there is not this charge. He should be able to deposit his checks in any one of those banks constituting that system.

Mr. WINGO. I think there is one concern where the bank has branches—either a branch or chain, I forget which—and still charges its customers an arbitrary interest rate on the clearance period and, in addition to that, it charges 25 cents on up; 25 cents is the minimum fee for each check.

Mr. STEVENSON. Just to illustrate my suggestion——

Mr. WINGO. I do not object to showing the gentleman my file on that—on the collection of exchange on remittances on foreign checks.

Mr. STEVENSON. If you say the National Bank of Philadelphia—if there is such an institution—has a branch in Wilkes-Barre, Pa., and a merchant in Wilkes-Barre has an account in the branch of that bank there and he wants to pay a bill in Philadelphia, he draws a check on the First National Bank of Wilkes-Barre, the branch, and sends it to the merchant in Philadelphia, and he can go to the First National Bank of Philadelphia and say, "Here is a check that I want credit for."

Mr. WINGO. He does not get credit for it now.

Mr. STEVENSON. I think if the system is established, he would.

Mr. WINGO. If he draws a check on a certain branch, he does not get credit if that is presented in the home office in the city. He sends it to his hat merchant, to use an illustration I have in mind—he sends it to the hat merchant, the wholesaler, and that hat merchant takes it to the central bank. That is not cleared immediately and he pays an estimated interest on that.

Mr. STEVENSON. Well, that is not right. It is the same institution and it has got his money, whether in Wilkes-Barre or in Philadelphia.

Mr. WINGO. Of course they all do not do that, where competition is fierce; in other words, here is a good strong hat house or wholesaler or a groceryman and the banks are competing for his business. The bank will take and carry the float for that wholesale house, but unless there is very strong competition—and I have found in one or two cities where there is apparently competition—they must have some gentlemen's agreement where everybody is carrying that float and charges something for the remittances.

Mr. STEVENSON. The unit bank at Wilkes-Barre is a different institution from the Philadelphia bank, but if it is the Philadelphia National Bank, located in Philadelphia with a branch in Wilkes-Barre, it is not right to charge exchange on the money that institution has in Wilkes-Barre.

Governor YOUNG. I should like to correct the record, for a moment. The discussion has been in Philadelphia. Philadelphia does not charge that exchange.

Mr. WINGO. When did Philadelphia stop charging on foreign checks? I had that statement made to me by Mr. Norris once before and I took occasion in Philadelphia on one occasion to test that out. Certainly my check bore an exchange charge, and they said my bank would charge on it. Of course, before I left town, my 25 cents was returned to me. They did not know at the time they made the charge that I was a member of the Committee on Banking and Currency. They returned the 25 cents.

Mr. Strong. I should like to put into the record a letter sent to the Banking and Currency Committee through the chairman, by Hon. Hatton W. Sumners, from Dallas, Tex.

This is dated Dallas, Tex., April 1, 1930:

Hon. Hatton W. Sumners:

I am inclosing a clipping from a local paper. This action in effect denies to the small depositor banking facilities, as wage earners seldom have that much to leave in the banks for their use over and above their own needs, Since they operate mostly under Federal charters I think it about time some regulatory measures were considered by Congress and Senate. They regulate service of railroads, post offices, and several other public service institutions, and I think they need it as much so as any of these other concerns.

Mr. Wingo. Is that the letter that inspired the chairman to advocate these checking accounts in post offices?

Mr. Strong. He incloses a newspaper clipping headed, "Banks to hike service rates—To double 50-cents charge and raise $50 to $100."

He also incloses a slip evidently being sent out to depositors by the Dallas National Bank, which reads as follows:

March 31, 1930.

Notice to our depositors:

Beginning with the month of April, we will make a service charge of $1 per month on all checking accounts averaging less than $100. We have been handling accounts of this size at a loss.

We believe that every citizen is entitled to banking facilities, but feel that each person should pay the actual cost of handling her or his account.

We sincerely hope that all of our customers can keep their balances above $100.

This does not apply to savings accounts—no charge will be made on them.

Dallas National Bank.

That is in line with your thought, Governor, that banks should rightfully make those charges to their depositors, so that they will not operate at a loss?

Governor Young. It is. I think that.

Mr. Strong. Is not that a very strong reason why the suggestion of the chairman might be considered, that if the banks are going to refuse to small depositors and the laboring men whose semimonthly payments probably will not be much over $100—they are going to charge them $1 a month—might it not be a good thing for the Government to liberalize their postal-savings banks so that the small depositor in rural communitities may be served without that kind of charge?

Governor Young. I think I know enough about the commercial banking business to realize that the Dallas National Bank is not making a profit on that transaction. They may be breaking even.

As a citizen of the United States, I would be bitterly opposed to the United States Government assuming a cost of $12 per person for cashing their checks in payment of bills.

Mr. Seiberling. In this connection, I should like to ask a question or two.

Mr. Strong. Go ahead and ask them, but make it just one or two questions as I should like to go on with my thought.

Mr. Seiberling. It is in connection with this particular subject. Since you have made the statement you have about the charge on accounts below $100, what balance do you think makes an account a paying account?

Governor Young. It would depend on different sections of the country.

Mr. SEIBERLING. Just an average, in a general way—$100 or $200?

Governor YOUNG. As I figured it out at one time in the bank I was with, I think it was in the neighborhood of $200.

Mr. SEIBERLING. If you believe they should charge them when they have a losing account, do you not think they should pay interest on daily balances above $200, on checking account? Do you not think they should pay some interest because that becomes a profitable account?

Mr. BRAND. Governor, you had better be careful about answering that question. The whole country will read about that when these hearings are published.

Mr. STRONG. Are you a banker?

Mr. BRAND. A small one. We do not charge anything for the service nor do we pay an interest on deposits.

Governor YOUNG. I think competition, Mr. Congressman, would force him to pay interest on deposits over and above a certain amount. I can not fix the amount because it is different all over the country. But you know and I know that there are national banks that do not pay interest.

Mr. SEIBERLING. I am not asking you what competition would do, but you have stated that where an account is below $100 or $150, it becomes a loss to the bank and the depositors should pay for the service. I am asking you theoretically if you believe that, that the depositor should pay because it is a loss to the bank, should not the bank pay the depositors something when the account's average daily balances reaches an amount where the bank makes a profit on it?

Governor YOUNG. In actual practice, Mr. Congressman, it is done.

Mr. SEIBERLING. What do you think about that yourself? Is not that right both ways? If your theory is correct, should not the other theory also apply?

Governor YOUNG. Well, I have done that very thing in commercial banking—not with all accounts.

I have to correct that a little bit, because when I was in the commercial banking business, they had not gotten up to the point of analyzing their accounts sufficiently well to realize they should put a charge on unprofitable accounts. I never put a charge on an unprofitable account, but if I was in the commercial banking business to-day, I would do it.

On certain open checking accounts that I had and I felt they were profitable and knew they would go elsewhere if I did not meet competition, I have paid an interest on the average daily balances. Having done that and believing it, my reply to your inquiry, actually and theoretically, is yes.

Mr. SEIBERLING. I think that is all. I should like to ask another question, but I do not want to take up any more time from Mr. Strong.

Mr. STRONG. Well, go on.

Mr. SEIBERLING. There are many banks in the country that charge this $1 a month service that do not pay a cent to any one on checking accounts, is not that true? That is true, is it not, no matter what the amount of the balance is?

Governor YOUNG. No; I think that practically every banker in the United States has announced that it will pay interest on some accounts.

Mr. SEIBERLING. Oh, a $100,000 or $200,000—big commercial companies—but I am talking about the ordinary commercial accounts.

Governor YOUNG. Yes, there would be many of those.

Mr. SEIBERLING. And there are banks that will make a man's wife pay if the account goes below $100, $1 a month, when the husband has an account of five or ten thousand dollars balance and gets nothing on it.

Governor YOUNG. Well, I do not know about that, Mr. Congressman.

Mr. SEIBERLING. That is all, Mr. Strong, and I thank you very much.

Governor YOUNG. It seems to me that could be avoided by a joint account.

Mr. SEIBERLING. I want to say I am opposed to the $1 a month charge and I agree with Mr. Strong that that is a service the banker should render just as the groceryman has to deliver a small order of groceries at a loss or a merchant deliver thread to a house.

As long as the bank makes a large profit for the stockholders, I think they owe some duty to the public, especially to these young people who are starting out in life, and ought to be educated in the banking business and should not be shut out of the banks.

Governor YOUNG. This has been developed in the ninth Federal reserve district in the small country banks. Obviously when the banker saw his bank go down and did not have any profits himself and he began to analyze his own situation and discovered where he could cut down where business was not profitable, and he felt compelled to do so.

He learned that he had a large number of small accounts that were not profitable and he was distributing calendars and pocketbooks, and in an effort to put his institution on a paying basis, he put on the service charge.

Mr. SEIBERLING. He finds one part of his business unprofitable and he charges for the service and finds another part extremely profitable and pays no reward for those accounts. At the end of the year the stockholder has received a fine dividend and the depositors have been penalized and others not rewarded who held big accounts.

Governor YOUNG. That is not true in many of the small banks I am speaking about in Minnesota and the Dakotas.

Mr. STRONG. It is also true, Governor, is it not, that a few years ago the little bank was deriving a great deal of income through charging for the cashing of checks, and largely through the influence of the Federal Reserve System checks were taken up and collected at par and no charge made, and that revenue was taken away from them?

Governor YOUNG. That is correct.

Mr. WINGO. Is this true or not, may I ask——

Mr. STRONG. Certainly.

Mr. WINGO. It has been contended that a great many of the small grocerymen and small bankers have been forced out of business because they have rendered so much free service they could not make a profit and no business, grocery or banking, can exist in a community and serve a community unless it can make enough profit to live?

Governor YOUNG. Correct.

Mr. WINGO. Is not that one of the major reasons why the smaller banks are dropping out, because they find the business unprofitable and they have started to analyze their losses and finding where they could charge for a service and exist and serve the community?

Governor YOUNG. That is correct.

Mr. STRONG. In my question I wanted simply to draw a comparison where formerly the little bank was charging a fee for the collection of checks, which was a considerable part of its income, through the action of the Federal reserve system and its par collection of checks, that revenue was taken away from them?

Governor YOUNG. I would rather say it was the action of the Congress of the United States.

Mr. STRONG. Well, the idea being developed and encouraged by the Federal reserve system?

Governor YOUNG. The law is specific, I think, Mr. Congressman.

Mr. WINGO. But the law specifically says they may charge not to exceed one-tenth of 1 per cent. But there was a little joker put in there. Congress was told that it would not destroy that revenue but would only prevent excessive charges, but in actual operation, it did, Governor. That is the trouble with that. The little joker is that they provided that a charge shall not be made against a Federal reserve bank and then you compelled them to go through the Federal reserve banks.

Mr. STRONG. We had that in our hearings once.

Mr. WINGO. The effect was the same as repealing that one-tenth of 1 per cent permissible charge.

Mr. STRONG. Now, I am not going to yield any more until I develop my own line of thought.

Mr. WINGO. Very well; you use the rest of your 10 minutes, and what you do not use, yield to Mr. Luce. (Laughter.)

Mr. STRONG. I am going to decline to yield any more.

This privilege of charging this fee on checks, having been taken away from the banks, went largely to the profit of the big banks in the float, has it not—in carrying that float—and passing it on to the Government?

Governor YOUNG. I do not think so. The larger banks in the larger centers, if they were to charge their country correspondents they, in turn, pass the charge back to their depositors. That was the general practice, with the exception of one or two points in the United States, where they figured they could absorb that charge and the business they would get would compensate for the charge.

The CHAIRMAN. May I suggest, Governor, that Philadelphia, at the time of the passage of this particular provision here, was one of the cities that was doing an extensive collection of checks for country banks and was requiring compensating balances. They took practically all checks that came to them and credited them on sight and made no charge for collection, but absorbed whatever charges there might be in the collection of those checks, themselves.

It was made known at the time of the discussion here that the Philadelphia National Bank, as I recall it now, was one of the largest institutions in Philadelphia and was doing the largest collection business of probably any of the banks there. By this change, and not being forced to pay anything for the collection of those checks which they took from the country banks, they made a saving of approximately $500,000 a year.

Under the working of the plan, those checks were cleared through the Philadelphia Reserve Bank and that did relieve the big city banks of that charge which they had heretofore been absorbing.

Governor YOUNG. In those two or three specific cases where they were collecting nation-wide; yes.

Mr. STRONG. In this case of the Dallas bank don't you think it fair to assume that this notice by the Dallas National Bank was not sent out until all the banks of that city had agreed to this proposition?

Governor YOUNG. I do not think so, but I assume it was a clearing house agreement.

Mr. STRONG. Then, the more closely banks in the cities become connected with each other, the more it is going to cost the public to do business with them.

Governor YOUNG. They were just as close 20 years ago as they are to-day, under a unit system. This is not a group system.

Mr. STRONG. If they are proceeding to do that now, saying, "We are not going to do business with the public unless the workingman leaves $100 in our bank or pays $1 a month"—if they continue that, they will deprive the public of a banking privilege they have had?

Governor YOUNG. No; they are going to charge them for it.

Mr. STRONG. Yes, at a profit. Now, if the Government can forego several millions of dollars in its revenue it would get from the Federal Reserve System because of this system that they have of standing the expense of the clearing house in the various cities and the banks are going to put that obligation upon the people who have small accounts, do you not think the Government would be justified in providing a system of banking through its Post Office Department or otherwise, whereby the people could enjoy those privileges without paying the price they are asked to pay for them?

Governor YOUNG. I do not.

Mr. STRONG. You think the banks should be allowed to insist on a profit in every line of their business?

Governor YOUNG. I do, if they elect to take it.

Mr. STRONG. Following up my thought that I have in my mind, the thought I have is this: When we have trade area branch banking, which will be dominated and controlled by a few groups in the trade area, the rules and agreements between the banks will very likely be more stringent and more demanding of a profit than they are now. Along that line, let me say in my district I know of a new bank that started out and had pretty hard sledding. It adopted a policy of accepting a checking account as low as $1. It admitted it was unprofitable, but they built up a clientele of a great many thousand boys and girls who never had had a bank account before.

In the course of six or eight years, those boys and girls and young men got into business. They still keep their accounts in that bank. Gradually that bank became the dominant bank of the town through the fact of doing a little business for less than cost and accommodating the small depositor who finally became a business man with a large account.

There was no agreement among the banks and that was possible. But to-day the banks have gotten together and say, "Let us all charge the small depositors. They must have $50 or $100 or we will charge them for carrying those accounts and we will not pay interest on deposits except over so many dollars and we will agree to pay only 3 per cent."

That is by reason of agreements, and gradually those have grown up among the banks. The thought comes to me that when those banks that have had to spend years reaching these agreements—when they are all under one or two or three heads in the trade areas—whether or not it will not be very easy for the officers of those branch banks existing in those trade areas to get together and do about anything they want to the public, to say nothing of the fact of dominating business through the contraction of credits in the trade area. I am just trying to develop my opposition to branch banking.

Governor YOUNG. They could do those things that were within reason and permitted them to make a profit, but they could not charge that man $100 a month for the account or $80——

Mr. STRONG. No.

Governor YOUNG. Or $50.

Mr. STRONG. No; but they might charge him $5.

Governor YOUNG. They might charge him $5 a month for the account, but he would not have to pay it. He still could go to the post office and buy postal money orders to pay his bills at a much more reasonable rate than that.

Mr. STRONG. But would have to carry his money in his pocket. He could not deposit the money and check against it. He would have to carry it in his pocket.

Now, I want to ask you in regard to the matter of examination of these groups. Do you think where a bank has 100 branches that it is a safe examination to send examiners out to examine one of those branches and the next day another and the next day still another? Do you think that is a safe way to guard the public?

Governor YOUNG. I do not think that is what is done, Mr. Congressman. In these large branch set-ups, they usually center on the parent office and several of the larger branches and, in my opinion, that is a fairly safe examination.

Now, there may be some little discrepancy or something wrong out in a small branch. There might be a defalcation, but it would be so small in comparison with the total that it would not affect the solvency of the bank.

Mr. STRONG. If the bank was in bad condition, could not they kite their funds around among the hundred branches unless they were all investigated, including the parent, on the same day?

Governor YOUNG. I do not think so. I think that by getting in the parent office and some of the larger branches, which the Comptroller now can do, that he can uncover anything that would be seriously wrong.

Mr. STRONG. Of course the Banking and Currency Committee was told, a few years ago, by the Comptroller of the Currency, that that was not a safe examination and that a branch or a bank with 100 or 200 branches, could not be examined unless they had a force to put one at each branch at practically the same time. That is where I got the idea.

Governor YOUNG. Did he say it was not safe or not thorough?

Mr. STRONG. My recollection is that it was practically impossible to make a proper examination of the bank.

Governor YOUNG. Mr. Congressman, I am not a bank examiner and not trained along those lines. Those questions came before the

Federal Reserve Board some time ago when we had insisted on a simultaneous entry and we called the Comptroller of the Currency at that time and discussed the situation with him and also consulted our chief examiner. The conclusions of those men were that, with a large set-up, where they could get into the key places—the parent office and at an occasional outlying branch—that they were fairly safe in so far as the solvency of that institution was concerned.

Mr. STRONG. If there was danger in the bank and it was unsound, do you suppose they could tell where the key places were?

Governor YOUNG. Yes.

Mr. STRONG. The banker who realizes he is insolvent would not be likely to cover up the small places and leave the key places open?

Governor YOUNG. Well, the examiner would get quickly to the place where he suspected trouble.

Mr. STRONG. Only a few years ago this committee was told by the Comptroller of the Currency that that was not a safe and proper examination. Now the committee is told that it is. Undoubtedly the heads of the department get their information, as you say, from the examiners, and I am wondering whether or not the influence of these groups which are headed toward branch banking, has not worked on those examiners, when they come forward and say it is not a safe examination and then, two or three years afterwards, they say they think it is.

Governor YOUNG. Would the experience of the Federal reserve system be anything to go by? We have 12 Federal reserve banks. We do not attempt to examine them simultaneously.

Mr. STRONG. But they are separate and distinct institutions.

Governor YOUNG. They are coupled up with one general gold settlement fund in Washington. A thorough examination would cover all those banks simultaneously.

Mr. STRONG. But the Federal Reserve Board has a very able governor looking after them.

Governor YOUNG. Still defalcations could occur and irregularities could occur, but we feel we are fairly safe in examining the banks individually.

Mr. STRONG. But here is a bank dominated and controlled by one group, with a thousand branches and it is getting in bad shape and the examiner comes in and he proceeds to go from one bank to another or to take the key positions. It seems to me the former information given us by the Comptroller of the Currency that that was a dangerous kind of examination, may be considered to be better.

Governor YOUNG. Well, I would not have that feeling, Mr. Congressman.

The CHAIRMAN. Governor, the present Comptoller of the Currency is advocating a change in our system of unit banking to trade area branch banking. He is emphasizing the fact that our present unit system can not continue as at present.

Now, he is the chief advocate of branch banking to be confined to trade areas. What is the effect on the unit banking system by having it supervised by an announced trade area branch bank examiner? Do you think under that system unit banking could proceed when the man who is supervising it is against it and advocating another system and says it is unsafe to continue in that manner?

Governor YOUNG. I do not think the Comptroller of the Currency takes that position, Mr. Chairman.

The CHAIRMAN. What do you understand his position to be?

Governor YOUNG. I think he advocates the extension of the branch banking area to the so-called trade area. I do not think that he has ever said or ever recommended or suggested that the unit banker should be put out of business.

The CHAIRMAN. He has stated in his annual report they were leaving, even under the McFadden Act of 1927; that national banks were gradually leaving the system and he advocated, as a method of saving the system, branch banking confined to trade areas.

It naturally occurs to me that when the unit banking system is supervised by the people who are against unit banking and in favor of branch banking, it would naturally follow that unit banking would be rather the sufferer in that respect.

In that connection also I would like to ask you whether or not, under those circumstances, it would not be natural for the Comptroller of the Currency to refuse to grant charters to unit banks and whether or not, under your observation, preference is not being given to these larger banks in the big cities to open branches, over the establistment of unit national banks?

Governor YOUNG. I could not answer for the Comptroller of the Currency, Mr. Chairman.

The CHAIRMAN. I am speaking particularly of the situation in New York City which, of course, is one of the tense branch banking cities and where I understand last year there were applications for something over 100 national banks and approximately 10 charters were granted and where there were branches authorized for existing institutions in many of the localities where unit banks were applied for but charters refused. They may have been properly refused, but I was just wondering how much such a situation would be affected by the supervision of a man who was a branch-banking advocate as against the unit banking system.

Of course these applications, I know Governor, are under the joint supervision of the Federal Reserve Board which power is delegated, I understand, to the Federal Reserve banks.

Governor YOUNG. That is correct—not as a matter of law, but as a matter of procedure.

You must bear in mind, Mr. Chairman, that there is always a check on the Comptroller of the Currency. If there is an application for a national charter, he must be reasonable as to whether he grants that charter or does not grant the charter, for the simple fact if he does not grant the charter, they can always go to the State banking department and use the same arguments and either get the charter or do not get the charter; in other words, he always has to take into consideration this: "If I refuse this charter will the State grant it and will I thereby weaken the national system to that extent?"

The CHAIRMAN. In the close working arrangements between the Federal Reserve and the Comptroller's office and the Superintendent of Banks, there is a matter of reference of all these applications back and forth, is there not?

Governor YOUNG. There is.

The CHAIRMAN. And they do not go contrary to each other's views on that?

Governor YOUNG. Not as a general rule.

The CHAIRMAN. In other words, if the comptroller refuses a charter, the State superintendent knows that, and he is reluctant to grant the charter.

I was wondering what effect that had on the decrease in the number of national bank charters issued and if, in the circumstances, it might not be working to the detriment of the building of the unit system?

Governor YOUNG. From what I have observed, I do not believe so.

Mrs. PRATT. I happen to know of two instances that might bear on what you say in regard to the refusal of charters to unit banks and the granting of permission to establish branches in New York.

In the instances where people apply for charters, they should have proper financial backing. There is no question about that, and in the instances I have in mind where charters were refused for the establishment of unit national banks it would seem, and I think we will all agree, that it was not a matter of prejudice on the part of the comptroller that resulted in that refusal.

However, the fact that permission to establish a branch bank was granted in almost the same area to an existing bank with sound financial backing and which seemed to be in the interest of the public, might give rise to the suspicion that there was some favoritism displayed.

I mention this because it is quite conceivable there might be many instances of that character which might lend color to the suspicion.

The CHAIRMAN. I was not suggesting a situation like that, Mrs. Pratt.

Mrs. PRATT. I think it will be found that in most cases the refusal is sound.

The CHAIRMAN. What I was illustrating is this, that the Comptroller, being a branch banking advocate, his leanings might unconsciously influence him in granting charters to branch banks as against unit banks.

Mrs. PRATT. My point is that it might look like favoritism where, when all the circumstances are known, it would not be. I know of two instances, which I have mentioned.

The CHAIRMAN. But in some instances, the comptroller being in favor of branch banking, might not favor the unit system as against the branch institutions.

Mr. WINGO. I think what the Chairman has in mind is this, that the comptroller, assuming that he is using or exercising good judgment in the matter, yet, because he believes in branch banking, might be swayed to grant or refuse a charter because of his convictions with respect to branch banking. I do not think you mean to imply he would arbitrarily refuse or grant a charter because of his bias for or against any particular system, as against the interests of the public.

The CHAIRMAN. I am not attempting to criticise the comptroller in that respect. We are all human, but if applications come along for unit banks and branch banks, he will follow the dictates of his conscience.

Mr. WINGO. What you mean is that if there is an application from a branch bank and an application from a unit bank, your theory is that the comptroller, being in favor of branch banking, would naturally give preference to the branch bank?

The CHAIRMAN. I think he would be more favorably inclined to the branch bank; yes.

Mr. WINGO. I knew you did not intend to charge the comptroller arbitrarily, without regard to the public welfare, with doing that. The thought you have been trying to get over is that a man in favor of a particular system will naturally give that system preferred consideration?

The CHAIRMAN. Yes.

Mr. STRONG. What the chairman is trying, in his modest and quiet way, is to point out whether or not it is a fair thing for the government, in this contest between unit and branch banking, to have a man who has power to grant charters, that is a branch banker.

Just one more thing and I am through, Governor. This board that has been discussed in New York that fixes the rate on call money and the renewal rate on money, has a great deal of effect and influence—it has a nation-wide effect, has it not?

Governor YOUNG. At times; yes.

Mr. STRONG. That being the case, do you think the Government ought to exercise any control over that board as to who it shall be and how it shall be regulated?

Governor YOUNG. I do not.

Mr. STRONG. Here is a board that may attract the savings of the nation to the stock market by a higher rate, and did do it and has done it in the last few years, which is generally admitted to be a rather dangerous procedure, and put them into speculative buying of stocks on the New York Stock Exchange.

Governor YOUNG. They can not do that, Mr. Congressman, even under very unusual conditions. It is the conditions that bring about that rate and not any arbitrary action of those three men. Their rate has to be right. In other words, the rate has to bring the money; and, if they make it too high, too much money comes and, if they make it too low, not enough money comes.

Mr. STRONG. I appreciate that, but we have got to the point where the money in New York for stock-market operations, by increasing the rate, they draw it from the savings of the Nation, perhaps to the detriment of other business.

Governor YOUNG. They did do that.

Mr. STRONG. I was wondering whether or not the Government should take some supervision of aboard that had that power.

Governor YOUNG. I have answered repeatedly before the committee that question, and given my reasons.

The CHAIRMAN. Are there any further questions? I may say at this point that I am hoping we can finish with the governor to-day, because, under the program as previously announced, Mr. E. W. Decker, of the Northwest Banking Corporation, of Minneapolis, Minn., will appear before the committee on April 15, and, on the following day, Mr. L. E. Wakefield, of the First Bank Stock Corporation, of Minneapolis, will appear.

Are there any further questions of Governor Young at this time?

Mr. WINGO. You favor the extension of branch banking, as I understand, personally?

Governor YOUNG. I do.

Mr. WINGO. You covered, in your statement here, the extent to which you favor its being granted?

Governor YOUNG. I have not.

Mr. WINGO. Do you mind giving the committee the benefit of your judgment as to whether it should be state-wide, district-wide, or trade area, or what you have in mind?

Governor YOUNG. I made the statement in the committee that I favored the trade area, the same as the Comptroller of the Currency. I can not define that at this time. I am hoping some day I will be able to do that.

Mr. WINGO. I do recall you said that. You took the position, necessarily, there would have to be some flexibility in defining the trade area.

Speaking a while ago about the question of profit for banking, I asked you if it was not true, from your observation, that one of the major reasons why the small bank has fallen and is passing out of the picture, is the same reason that a lot of small merchants are passing out of the picture—that they can not make money out of it?

Governor YOUNG. That is true and they have been trying to convert some of their gratuitous services into profitable services.

Mr. WINGO. In the last analysis, Governor, someone has to pay for that service?

Governor YOUNG. Certainly.

Mr. WINGO. Take the groceryman, when he delivers a small package, or if he gives unlimited free delivery service, he has to cover that in the profits that he makes out of all of his customers, and those who carry their own goods from the store, have to contribute their part of the expense of carrying the purchases to other customers in their apartments or their homes. That is true, is it not?

Governor YOUNG. That is true.

Mr. WINGO. A bank that renders free service, by keeping an unprofitable checking account for me, unless I pay for that service charge, you and others who have profitable accounts, must show that bank enough profits to cover the deficit or the loss in handling my account?

Governor YOUNG. Some where some one has to pay that.

Mr. WINGO. And if that free service and the limitation by reason of the interest rate and the limitation on the charge for remittances—all of these different limitations and losses make it impossible to pay a dividend to the stockholders, it means that sooner or later that bank will be liquidated?

Governor YOUNG. That is right.

Mr. WINGO. If it does not fail it will be liquidated, as being an unprofitable investment for the stockholders?

Governor YOUNG. Usually local pride carries that bank along.

Mr. WINGO. That local pride has been one of the incentives, though, that has led them to put their heads together and bring about a consolidation in these small towns, where they have had banking facilities. One of those consolidations occurred in one of my county seats, in the town of Nashville last week. Two banks there have consolidated, and in their advertisement they directed attention to the fact they could operate at less expense and render better service.

That is taking place in the different smaller communities over the United States where they have more banking facilities than the business men in that town feel they can maintain and make pay for themselves—they are consolidating.

Governor YOUNG. Up to 1920 the number of banks was increasing and since 1920 they have been decreasing through consolidations, mergers, and failures.

Mr. WINGO. That decrease in the number does not mean, necessarily, that in every instance some community has been robbed of proper banking service, but it means in a great many instances a sounder, larger and better banking service is afforded that community by reason of the consolidation of in some instances two unprofitable institutions into one that can exist and make a profit and have a larger opportunity to serve the community.

Governor YOUNG. Generally speaking, that would be true, Mr. Congressman; but I referred, in the record this morning, to the statement of the superintendent of banks of Minnesota, in which he said that there are 154 communities in the State of Minnesota that had banking facilities that now have no banking facilities. Many of them are entitled to banking facilities.

He recommends under their State law that they be permitted to establish branches in those smaller communities.

Mr. WINGO. In other words, the point you are making is that notwithstanding the efforts of people in these localities to preserve their institutions, inability to maintain them at a profit has caused 154 communities to lose the service and the banking superintendent says that, in order to enable them to have it, the State law should be changed to enable them to have branches in those communities?

Governor YOUNG. In a percentage of them.

Mr. WINGO. In which they could be operated profitably?

Governor YOUNG. Yes.

Mr. WINGO. Now, there is another reason for the decline in the number of banks, which is this, is it not—I think it is true in my part of the country but I do not know whether it is true all over—but with the system of improved highways that have been established, improved transportation and improved communications, distances have been shortened so that a man who formerly lived a in small town that was 15 or 20 miles away from the metropolis of his county, we will say, that man now can go to the metropolis of his county about as easily as he used to go to the village, and the family are going to the metropolis for their purchases and the merchants in the small locality are passing out of the picture because of their inability to meet the competition of the larger merchant or banker that attracts the larger business to them.

Governor YOUNG. There is a great deal to that.

Mr. STEVENSON. My conception of the problem that is before us, Governor, is twofold: We want to make the system such that a man who goes to bed tonight will realize that his money is in a bank that is of such a type that it will be there the next morning. Then we have to guarantee to every business community proper credits for legitimate business in that community.

Now, those are the two main reasons why we need to do something with this banking system.

As I understand, you believe that the suggestion of the comptroller would help that situation?

Governor YOUNG. It would help it.

Mr. STEVENSON. In removing all trouble?

Governor YOUNG. No.

Mr. STEVENSON. There is no trouble-proof proposition to be put over here?

Governor YOUNG. No.

Mr. STEVENSON. But we certainly need to do something to insure the confidence of the depositors and justly insure the commercial interests proper credits. If we can do that with branch banking, we have done something.

Governor YOUNG. The name, branch banking, chain or group banking, is not a cure-all. Obviously all of those systems will have to go through a period of experiment.

Mr. STEVENSON. I believe the branch banking system is superior to all of those. You have one big institution responsible for all of them, and with group banks and chain banks it is not so.

Mr. STRONG. Governor, this may not be in the record, but as I am the chairman of another committee, I often have to be absent from this committee and probably was not present when it was discussed, and that is the matter of the division of profits in the Federal reserve system. Several propositions have been made and several bills are pending before this committee regarding that.

Several years ago, when we were, as a committee, going over the Nation investigating why smaller banks did not join the Federal reserve system, it was suggested that a proper division would be to take the profits of the Federal reserve system and divide them proportionately between the banks that furnished the reserves, to the amount of money furnished by the Government in currency.

Governor YOUNG. My reply is all in the record, Mr. Congressman, and it is substantially this: That the Federal Reserve Board, in its annual report, has recommended that the member banks participate to a larger extent than they are now participating in the earnings of the system, if earned. We have not been able to work out the exact procedure, but expect to do so and present it to the committee.

Mr. Chairman, I have been here for three weeks. I have attempted to be of some benefit to you. I hope that I have. I have received very courteous treatment for which I am most grateful.

The CHAIRMAN. We are deeply appreciative, Governor, of the frank manner in which you have responded to questions of members of this committee. You have been very generous of your time, and I know you have given us information that will assist us very much and will be of great advantage to us in our survey of this great problem.

The probability is, however, that before we complete our study, we may want you back again.

Mr. DUNBAR. Is Governor Young to appear this afternoon?

The CHAIRMAN. No.

Mr. DUNBAR. My thoughts are along the lines discussed the other day by Mr. Beedy and Mr. Fort, and one of the questions you propounded, Mr. Chairman, was that if, in the panic which resulted last fall, a great many banks did not impound their gold and did not use it for cerdit purposes. As I understand it that was one of your questions.

I want to observe and ask Governor Young if it is not true practically every dollar of gold and bullion that is in this country is the basis for all our credit to-day?

Governor YOUNG. It is.

Mr. DUNBAR. It is the basis of all our credit?

Governor YOUNG. Yes, sir.

Mr. DUNBAR. We have gold and bullion to the amount of $4,300,000,000. We have deposits amounting to $58,000,000,000 in the banks of our country. It seems to me if any of that gold in the banks had been impounded and had escaped being used as a sort of credit, it must necessarily be very small.

Governor YOUNG. You are making the inquiry as to whether any gold was sterilized, as many of the economists refer to it?

Mr. DUNBAR. Yes.

Governor YOUNG. I do not think it was.

The CHAIRMAN. The committee will stand adjourned until Tuesday next, at 10.30 o'clock a. m.

(Whereupon, at 1 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. on Tuesday, April 15, 1930.)