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 15, 1930

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

The committee met at 10.30 o'clock a. m., Hon. James G. Strong, presiding.

Mr. Strong. The committee will come to order.

Mr. Goldsborough. Mr. Chairman, before we begin the regular business, it has been called to my attention that April 22 is an open date in this committee. I am going to suggest that the Eastern Shore Trust Co. be invited to send a representative here for that day.

Mr. Strong. Very well. The clerk will take care of that.

I understand we are to meet this morning for the purpose of hearing Mr. E. W. Decker, of Minneapolis, Minn., from the Northwest Bancorporation. Mr. Decker is present. We shall be glad to hear Mr. Decker at this time.

STATEMENT OF E. W. DECKER, REPRESENTING THE NORTHWEST BANCORPORATION, MINNEAPOLIS, MINN.

Mr. Decker. Mr. Chairman, I asked the chairman for the privilege of telling my story, which is not prepared in writing, without interruption, which permission he has granted. Following that I will be very glad to answer any questions that I can.

Mr. Strong. That will be the procedure of the committee, Mr. Decker.

Mr. Decker. Let me say first, Mr. Chairman, that in my opinion this committee is now approaching a subj ct which is the most important and far reaching, so far as banking is concerned, of any which has engaged the attention of the country since the days of Andrew Jackson. That being true, at least in my judgment, I think the committee is very wise in proceeding with the plan of an exhaustive study of the entire subject before attempting any hasty legislation. Mr. Wakefield, who is to appear, I believe, to-morrow, and I, certainly appreciate the courtesy of the invitation to appear before you, to tell you of the conditions in our part of the United States.

One reason that I think you are very wise in your procedure is this. Congress attempted some sixty-odd years ago to establish a national banking system in this country, and very wisely so. They invited the people to deposit their money in these banks and to apply to these banks for proper banking facilities.

Undoubtedly there followed with that procedure the responsibility on the part of the Government which I have no doubt your committee fully recognize. One of the responsibilities in connection with that system, in my judgment, is to allow the banks in that system to be prosperous.

It is fundametal, gentlemen, that no single bank, no group of banks, nor all the banks in the United States together, can be safe for the depositor, give adequate facilities to the legitimate borrower, year in and year out, unless they are prosperous.

All of the commercial banking capital of this country to-day is private capital. Private capital always seeks for investment lines which are profitable. That is also fundamental. If banking is not prosperous, private capital will not go into it.

We have been operating in this country for 150 years under a system of unit banks. I believe that system has been the best that we could have had for the development of a country that is so vast in area; 3,000 miles long and nearly 1,500 miles wide; and also considering the diversity of our resources and the various problems which confront different parts of the country, I believe that the unit system was the best system we could have operated under.

With 27,000 to 30,000 individual banks in the United States to-day, it has become perfectly apparent to students of the situation that that system has now become antiquated and absolutely inadequate. No better evidence is needed than the tremendous failures of banks which are taking place. I am going to endeavor to show you a way in which the advantages of that system will be retained, not disturbed, but will be supplemented by a development which will meet the changing conditions.

The building of our highways and the incoming of the closed car, the automobile, the telephone, the radio, and various other modern appliances, has brought us very closely together.

Anoka, a small town 25 miles outside of Minneapolis was as far from Minneapolis 30 years ago as Minot, N. Dak. is to-day, a distance of 600 or 700 miles, so far as business and banking are concerned.

The crossroads bank has had its farm-loan business taken away from it, largely by the United States Government. There is very little dealing in land, which formerly was profitable. In North Dakota, the State has taken the hail insurance away from the small banks. Their profit on exchange has been disturbed somewhat. They have been unable to resort to other forms of making money, as the city bank has, in these changing conditions, and therefore they find it very difficult to exist.

In the city, whether you like it or not, the commercial banker of to-day must be an investment banker. He can not escape it.

I might say that I was born in Minnesota, on a farm. I lived there 18 years. I used to milk 12 cows and walk 2 miles to school, so I know something about hard work on a farm.

I have been in the banking business in Minneapolis 43 years in a bank which has correspondents all the way to the Pacific coast, so with ordinary observation, I ought to be able to give some idea of the conditions there in banking.

Notwithstanding these conditions, business in our section of the country is in my judgment on a sounder basis to-day than it has ever been in my experience.

We have been operating as business men under a tremendous handicap of an antiquated system of banking, as I will attempt to show you.

I assume you will want to hear from me more particularly regarding conditions in the section where we operate. I might say that the bank with which I have the honor to be connected in Minneapolis was organized in 1872 and has never missed a dividend. I do not speak of that to brag about my bank, but to show you that under proper management, banking has been continually prosperous in our part of the country.

Now, when you come to the country districts, you have an entirely different situation. We fully recognize that we can not operate a bank in the country on the same basis on which you operate a bank in the city. A city bank is, as I said a moment ago, becoming partially at least an investment bank. Customers of ours in Minneapolis who used to borrow money are not applying for loans any more, except very occasionally. They have financed themselves by bond issues, note issues, stock issues, and instead of coming to the bank to borrow $500,000 for their business, they have in many instances been loaners of money.

Therefore, whereas 30 years ago when Mr. Forgan came to our bank, great sums of money were loaned there in the fall to move the crop by Canadian banks, and our bank was always a heavy borrower in the fall for the purpose of moving crops, in many seasons in the last 10 years our bank has been loaning money on the Street in New York at the time when crops were moving, because of a surplus of funds.

Mr. Wakefield's bank and my own are large owners of bonds; Government bonds, municipal bonds, various investment bonds, commercial paper, because our customers have not absorbed all of our funds.

That is true, notwithstanding the fact that in the deflation period of 1920 and 1921 our two banks alone loaned $60,000,000 to country banks who were our customers, to tide them over that crisis, and in many instances accepted collateral which, to say the least, was doubtful.

The city banks in Minneapolis and St. Paul have charged to profit and loss in the last 10 years at least $6,000,000, a very large proportion of which was lost indirectly in loans to bankers throughout that section of the country.

Our loans direct to the banks themselves on collateral as a rule were paid. But indirectly we furnished capital for these banks by loaning money to country bankers and those losses have been very heavy. So we can not be charged with not using our own resources to tide over the situation in banking in our section.

The reason we were able to do that and continue paying dividends and remain as strong as the Rock of Gibraltar, as we have in season and out, is because the banks naturally were prosperous. No bank in the world can live by loaning money to people who can not pay it back. A commercial bank is expected to take reasonable chances in its loans. That we did so is evidenced by the statement I have made regarding losses.

Those losses must be taken care of by profit, or the result is disastrous. In the last 10 years the banking situation in our country has been deplorable. In my judgment it is a national disgrace. In a country as rich and as intelligent as the United States is, to be permitting a condition of banking which has existed there for 10 years is nothing less than tragedy.

I believe it is the duty of the banker, as well as those in charge of banks, to furnish the same protection and the same facilities to the farmer in North Dakota, so far as banking is concerned, as the broker who does business with the National City Bank in New York City.

Onr trouble with agriculture, about which there has been so much talk, in my judgment is largely due to the banking situation. It is not true, in my judgment, that these banks have failed due to agricultural distress, but that agriculture has been in trouble because of our banking distress, as I will show you.

Have in mind, gentlemen, that banking is the heart of business. It is utterly impossible permanently to have prosperous business and weak banks. Had not the large banks of the United States been absolutely and fundamentally strong during the recent stock collapse, the whole business of the United States would have fallen flat. It could not have been otherwise.

I will give you a few instances—and I am only going to attempt, Mr. Chairman, to hit the high spots in my talk—of what that situation in banking has been. Take Cavalier County, N. Dak., a county, gentlemen, with good soil and generally speaking, a good class of farmers. In 1919 there were 26 banks in Cavalier County. I will not read off the names, although I have them here, because I do not care to burden you with that. Twenty-one banks out of the 26 have closed and are closed to-day. The total deposits in 1919 of those 26 banks was $5,665,000. The deposits in the remaining five banks are $717,000.

What do you think happened to the farmers of Cavalier County? Was this agricultural distress? Supposing thay had gotten 10 or 15 cents more a bushel for their wheat? You might about as well have allowed a cyclone to go across Cavalier County as to have allowed that condition of banking to exist.

Now have in mind that a similar condition, but not as bad, of course, in all sections which during that 10-year period closed 1,500 banks in our district, with between three and four hundred millions of deposits, created a loss to those depositors, a class of people who could less afford to lose it, and that is undoubtedly true, generally speaking, throughout the whole United States in the loss or at least the tie-up of a billion and a half in deposits in closed banks. The burden has fallen upon the people who could least afford to stand it. Have in mind also that the depositor not only lost his money but the borrower in those banks was approached by the receiver and informed he would have to pay up.

What happened to him? What resources he had he had to attempt, at least, to turn into money to meet his note.

Do you wonder we have had some so-called Bolshevists in our country when such a condition exists?

In Cavalier County, to which I referred, I will give just one instance of a woman who came in with $3,400 in dirty money, in a shoe box, to pay her mortgage. I know of one other instance—I could give you innumerable ones—of a very prosperous farmer in North Dakota who had a sizeable deposit in a number of banks. Three of those banks failed. He went to the balance of them where he had his money on deposit, drew it out, took it home, hid it in his bed ticking, bought a sawed-off shotgun, and said, "From now on this is my bank." Do you blame him?

I know of a great many instances where farmers have had money in banks accumulated to pay off their mortgages and before the mortgage matured, the bank failed.

I know of one instance at least where a farmer had sufficient money in two different banks to pay his mortgage and both banks failed.

In Moorhead, Minn., the only bank there closed December 22, 1928, with $2,200,000 deposits. They appealed to the Northwest Bancorporations to put in a bank. We responded. We organized a national bank, opened it in Moorhead and March 5, 1925, three months later, immediately made available to the depositors of the closed bank, $1,000,000 cash, $750,000 of which they immediately brought back and deposited in the new bank.

Gentlemen, that country is not broke by any manner of means. But it is pretty hard for a man to swim when you tie a millstone around his neck.

In Two Harbors, Minn., the president of a bank belonging to our group a few months ago committed suicide. He had a daughter who was mentally defective and it had grown on him mentally until he finally killed his daughter and committed suicide. That was on a Sunday. The next morning, naturally, there was a run on the bank. Two Harbors is 22 miles north of Duluth. We telephoned to our bank in Duluth to send them $100,000 in currency and as much more as they wanted. Before noon the run had subsided; no trouble. I do not know what would have happened to that bank, had they been independent entirely.

Now, what did we do for Cavalier County, the one I just mentioned? Across the line is the city of Grafton. The Grafton National Bank has been a customer of ours for over 40 years. They came down to us and actually cried for help. We took over that bank, put in some new capital just recently. Money is now coming into the bank. They were absolutely helpless—absolutely helpless.

The Northwest Bancorporation has put into banks in its group, of which there are 98 banks and trust companies, in the last 12 months, in cash, over $4,000,000 and taken out of those banks undesirable if not bad paper, and to secure us against this advance which was made through the medium of loaning to a separate corporation organized for that purpose, we took over the assets charged off and in addition held out a sufficient amount of stock in the Northwest Bancorporation which is the holding company, to secure us, as that stock was to be given and will be eventually given to the shareholders of the old bank when their loan is paid, which is evidence that we have been willing to put in money to clean up the situation. Mr. Wakefield will be able to tell you a similar story.

In order to make my story as short as possible, about two years ago my young men came to me in the bank and said that they were absolutely convinced that a concentration of banking capital was going on in the country and that I should direct my attention to it; and that they thought that we should in some way or other assist in stabilizing the banking business in our part of the world.

I said, in my judgment, it is the business of the banker to stabilize banking conditions here because if he does not, either the politician or the business man who has become thoroughly disgusted, will step in some day and change it for us, perhaps in a way that does not suit us.

So I proceeded with my directors to devise a plan first of stabilizing banking in our part of the country; second, in attempting to provide facilities for our people, of which there was an apparent dearth, and to prevent, if you please, eastern or foreign interests obtaining control through purchase of stock of the banks in our district.

Now, you may think we are trying to set up a monopoly. I am going to endeavor to show you that we are trying to prevent a monopoly. It is idle for any one to say to-day that we do not like big business. It is here. It is here to stay and it is never going to go. It is utterly impossible, if desired, to drive it out. We are the richest nation in the world. We are a world banker if not the world banker.

Big business is going to grow and you can not take care of big business without big banks and big banking capital. It makes no difference whether you like it or not.

I consider it our job to see that we accomplish that with the least possible harm, if it is harmful.

I found in three or four instances definite cases where eastern capital had approached our banks in our territory—sound banks—to buy control. The people had been asked to set a price on their banks. I said to our directors, "if these banks are going to pass into other hands, the control should be kept in this district."

When we approached those men with our plan, they said, "We do not want to sell out. We do not want the money, but we do want to have a partner. We are sick and tired of sitting up here on the prairie with the lack of confidence, as we have for many, many years, without a partner."

So we have attempted to set up in our district what is actually a cooperative system of banking. It is not a monopoly. It is the only way that I know of to prevent a monopoly.

During the 43 years that I have been in the banking business, I have seen my customers and my own directors go to New York and Chicago—such as Pillsbury, General Mills, Archer Daniels, Minneapolis Honeywell, Cream of Wheat, Munsingwear. New York banking houses have underwirtten their securities, taken off 10 or 15 points, sent the security back at the higher price. Our customers draw the money out of our bank to buy it, not by hundreds of dollars or thousands of dollars, but millions of dollars.

I said to our people, "Why should not that profit be kept at home—at least, some of it"? We are not foolish enough to think we can become independent. But we are sufficiently satisfied with out own capital and ability to believe we can become more independent.

How could that be prevented? No one bank nor no two banks in our district were large enough to handle transactions of that sort, no matter how sound they might be.

We felt that a group of banks all in our country, largely with the same problems, sympathetic with each other, each cooperating, coordinating, not consolidating, can and will do it. So we organized the Northwest Bancorporation under the laws of Delaware. We went to four of the best banks—not the poorest, the best banks—presented our plan. They said immediately, "That is the most constructive thing that has ever been offered here in this part of the country. We will gladly join you. We will not sell our banks."

Take the First American National Bank, Duluth, a consolidation of the two largest banks there, a bank of $36,000,000 deposits to-day.

They said, "We would not sell control of this bank outside of Duluth at any price." They have 30 directors, half of whom are millionaires. "We will join you in this group, leaving this bank still a Duluth bank but assisted by the cooperation of these other banks."

Now, the Northwest Bancorporation, with its ninety-odd banks all in that part of the world, is attempting to retain to our country the unit bank, but adding to it all the strength and influence of the group. It is not a monopoly. It is not dominated in Minneapolis, although that is the headquarters, because there are on the board of directors of the Bancorporation 126 men, practically every one of whom is a successful business man, in numberless lines of business, and less than 30 of them reside in the city of Minneapolis. They are running that corporation. They attend the meetings regularly and enthusiastically.

There are so many things which this banking corporation can and is doing for our part of the country that it is almost impossible to enumerate them. First, it has unquestionably, together with Mr. Wakefield's corporation, stabilized our banking conditions at least at the points where there are banks which have joined our group.

It is enabling us to finance our people at home, as I explained to you. It is enabling us to secure trusts in these various points where our banks are located, which is a field hardly touched.

In Fargo, N. Dak., alone, our bank has already written in the last year a dozen trusts from people who were unwilling to create a trust in a local bank, not being assured of its perpetuity. A man has $100,000 that he wants left to protect his wife and girls. He wants to know that his trustee is going to be there 25 years after he is gone. It was utterly impossible to convince him that he should create that trust and leave it in the local bank. He knew nothing of what the management of that bank would be in five years or whether it would be in existence.

We satisfied him that the Northwest Bancorporation with $75,000,000 of capital and nearly $500,000,000 of resources was going to be there, that it was large enough and strong enough and presided over by a sufficient number of capable, successful business men, that the perpetuity would be guaranteed; that they would hire good management and would always see that the institution was properly managed and not dependent on any one man or two men or any set of men.

That trust business in itself is not only a tremendous service, but it is profitable business which belongs in our own district.

We are entitled to retain in our district as much of the wealth which we take out of the soil as is possible and in my judgment we are entitled to the support of the United States Government in so doing. We were not smart enough to find any better way of doing it.

In the matter of young men, from time immemorial our smartest young men have been leaving us for New York and Chicago. Why? Greater opportunity. Mrs. Pratt here may know that some years ago a Westerner was bragging in New York that all the smart men that they had down there came from the West.

"Yes," the New Yorker said, "and the smarter they were the sooner they came."

I can tell you of one instance of a young man who was receiving $25,000 a year, connected with our organization who within four months was offered $75,000 a year to go to Chicago, not with a bank. He declined. Why? Northwest Bancorporation offered opportunities to him which were good enough for him and had it not been for that company, he said he would have gone.

Another young man who handles our publicity work in Minneapolis was offered $35,000 a year to go to New York City. He came back and told me he declined it purely because of this banking group; that he saw opportunities enough for us at home.

That is a much larger question than appears on the surface. Why? In banks as in everything else, management is nine-tenths of the story. Pass all the laws in the world about banking. Without management your institutions would fail.

How are you going to secure management if your best and most capable young men and women leave you to go to larger fields? The keeping in our own district of young developing men is in my judgment a very important consideration in the organization of these groups.

Our section of the country was in disrepute. Large international and national concerns would not even open offices there 8 or 10 years ago. An agricultural credit corporation was organized with the assistance of Secretary Mellon and Clarence Wooley and one or two others and eastern interests subscribed $10,000,000 in cash, immediately available, to correct the distress there, so-called, in agriculture and banking, but largely in banking.

We wanted capital to come in. We want to develop our country. Yet it was all going the other way, so far as banking was concerned.

In the meantime we are on a sounder foundation, as I said at the outset. We have diversified our farming. We are a very wealthy country and if we had had in operation in the last 15 years, gentlemen and Mrs. Pratt, a sound banking system, it is my judgment that 50 per cent of all the so-called agricultural distress would not have been heard of—absolutely.

Another percentage was due to poor farming and of course another percentage to conditions over which no one had control.

Now, what is the remedy? That is what you people want to know. I think we have found the solution, so far as our country is concerned in the banking line, and it is the result of a great deal of thought and considerable experience.

We have the temperament of the people to deal with. You will ask me, "Will branch banking cure it?" My answer is, "Emphatically no."

The banks throughout our district who are members of the Northwest Bancorporation, regardless of what my personal opinion might be, and their competititors which are still independent banks, are unalterably opposed to branch banking. Why? I will give you a concrete illustration.

Take the city of Minot, N. Dak. It has a little less than 25,000 people. The First National Bank is a member of our group. It has been there a great many years. They have a fine board of directors; it is a fine bank; small capital and large deposits. I said to them, "Supposing you are asked to become a branch of the Northwestern National Bank of Minneapolis, instead of a member of our group?"

They said, "We would not have it. Our bank has been here a great many years. We have our local pride; local board of directors, local management."

They are now members of the group, mind you; the same local authority, and the same local responsibility which they had before they joined our group. We have taken not one iota of a thing away from them in any manner, shape, or form. They have got everything they had before plus the strength, the influence and power of a cooperative system or group system, as we call it, of banks at their back.

You say, "Well, you would supplant them if the management did not suit you, at headquarters."

My answer is it would be against our interests to supplant them unless the bank was mismanaged. If the bank was mismanaged grossly it would not make any difference who owned the stock. It is our business to put them out and put some one in who could manage it. We have a large investment in that town, in that territory. It would be against our selfish interests to supplant the management.

That feeling exists throughout our entire district and in my judgment to attempt to force branch banking at this time on those people, in lieu of group banking would stir up the biggest hornet's nest that you have seen for some time, because that is a big country and there are a lot of people there and a great many banks, and they are unalterably opposed to branch banking.

Their training and their traditions are all along other lines. They believe in group banking, because they see that they have retained all that they had before and added all the advantages, or practically all the advantages that branch banking would give them.

In the small towns, the so-called crossroads towns, I will admit that we have a real problem. A town which is so small that it can not support a unit bank, regardless of whether it is independent or in a group, but which is large enough to be entitled to some banking facilities, will probably need some kind of a branch or teller's window. I know of no other solution.

But in a town of sufficient size to warrant a unit bank, which has existed in most cases for 50, 60 years, many of them, with its local pride, its local directors, its local interests, its local management—to force that bank to become a branch bank will run counter to public opinion and in my judgment create a great deal of unnecessary trouble if you can accomplish the same things in other ways.

It is true branch banking can be operated more economically probably than group banking. I think the difference in cost to-day is a great deal more than made up by the advantages of the independence of the locality which has been the basis of our Government since it started; and to destroy which would be exceedingly unfortunate.

It is idle for me to attempt to say what we should have in 15 years or 25 years. I do not know. I only know that, as I see it, our duty is to meet the situation as it is to-day and correct the evils with the least possible disturbance to the machinery which has been operating for many years. That is more true in banking than in any other business in the world, because banking is based on the confidence of the people, and as I stated before, is the heart of business. Unless it is sound, business can hardly possibly prosper.

Millions of dollars in our part of the country have been and still are, in my judgment, to-day in hiding. We have many evidences of it. One town in Minnesota had five banks. They are all closed. A friend of mine owns some mortgages out there. Recently he went out to collect them and every one of them was paid—brought in cash in tin boxes and in socks—in Minnesota, one of the richest States in the Union; producing more butter than any other State in the Union. It is not a wheat State at all. We get more money for our eggs than we do for our wheat.

You ask me, "What about stockholders' liability, if this stock is owned by a corporation?" My answer is that in a well-managed corporation, that question will never arise. If one of the banks in our group has a misfortune, it will be taken care of and the public will never hear from it. But if it should develop, the chance of collecting liability or taking care of the deposits of the bank belonging to a group in my judgment are greater, better than the likelihood of collecting money on stockholders' liability in country districts, because in most cases when the bank is gone, the shareholders are also gone.

In that connection, I advocate the requirement if possible, in some legal way, of a percentage of assets of a holding company being in liquid securities other than bank stocks. Mr. Wakefield's company and out own each has 10 per cent to-day in liquid securities that can be turned into money immediately to clean up the bank, if it requires it.

The comptroller says it is difficult to audit holding companies. Very true. We not only welcome, but solicit visitorial powers by the Comptroller of the Currency in not only our national banks but our State banks, the security companies belonging to our institution and the parent company itself. Nothing would suit us better than to have him in control of every feature of our group banks. Whether that is legal or not, I can not say.

Mr. WINGO. You would include the holding corporation, too, would you?

Mr. DECKER. Absolutely. You say, "We will have some bad holding companies. We will have some organized for stock-jobbing purposes. That makes the comptroller's job difficult." Yes; but the fact remains that if you furnish the Comptroller of the Currency with sufficient money, with sufficient organization, he can quickly determine whether national banks joining groups are being used for illegitimate purposes. It is not a difficult matter to determine whether our group and Mr. Wakefield's is founded for the purpose of of anything except the good of the banks of the country and for their solidarity, or whether there is evidence of stock jobbing or manipulation. It is not a difficult matter. After all, the comptroller has to use his judgment in judging human nature as well as in examining figures, which do not amount to much, because they are not always correct.

There are so many ways in which the Northwest Bancorporation is assisting the banks in its group, it is hard to enumerate them. For instance, they have been buyers of bonds, some of them, for years. They have no experts. Some of them have no bond department. They have bought bonds with very slight knowledge of their merit. They immediately said to us, "For goodness sake, help us to buy bonds and tell us whether what we have we had better get rid of."

They solicit our assistance. We are not cramming it down their throats. It is cooperative in every sense of the word. But if one member misbehaves, he is going to be called and he will be called so much more promptly in a good group of banks than he would as a unit bank, that the saving to depositor and borrower will be tremendous; there is no question about it in my mind.

To-day there are hundreds of banks in our section of the country who want to join these two groups. There is no trouble in getting banks in. The trouble is in keeping them out. Why do they want to come in? Simply because, as I say, they realize they can retain everything they now have, with all these advantages. We are not urging them to come in.

We are making great plans for development of our country in financial lines aside from ordinary commercial banking.

It is obvious to any of you that the average farmer can not come to a local bank and borrow money for 90 days with any expectation of paying it. Unless he is shipping wheat to market or cattle or sheep, he must have a longer time for credit.

The independent bank during these years would say to that borrower, "Yes, we have some money to loan. You are good. You will eventually pay. I have not the money to spare now and therefore I can not accommodate you." Or, if he had the money to spare he would say, "I am afraid I will need it before you can pay it and I do not dare let you have it."

To-day, every legitimate borrower in every bank in these two groups is taken care of in every bank in the group, without exception.

We are also interested in this long-time credit. Northwest Bancorporation recently acquired the Montana Cattle Loan Co., which now has over a million dollars in cattle loans in Western Montana; necessarily long-time loans. The loans are not properly acceptable to a commercial bank. So we are carrying them in this outside corporation.

We have under discussion right now, Mr. Wakefield's institution and ours, a question of such business as the agricultural credit corporation has been handling, and they have done a wonderful job up there in getting sheep and cattle into North Dakota, which was only a few years ago an exclusive wheat State.

Why, I could keep you here all day giving you figures of the way North Dakota is diversified. It takes capital. Who is going to furnish it? Those little individual banks certainly could not. They could not even take care, many of them, of their good customers.

That is one of the many things being planned to-day. Now, you say, "Why does the Northwest Bancorporation go into Iowa and Nebraska? They are not in your Federal reserve district?"

My answer is threefold. In the first place, they asked us to come in and they gave as their reason, this: "We are satisfied group banking is coming. We believe in it. We want to get in it. Obviously, we can not join New York or Chicago because they are not forming groups, and we would not if we could. We won't go to Kansas City. We want to join Minneapolis, because we believe that you understand our problems and are sympathetic with them and by joining you, we believe the best can be accomplished for our company."

That was their reason and I believe it was a good one. Another reason why we went into that territory was that we believed that in order to make a unit sound and at least partially self-sufficient, you must have a very great diversity of resources. We have in the Northwest Bancorporation to-day mining interests and water power interests of the Rocky Mountains, the grain growing, the tremendous dairy interests of Minnesota, the iron mining of Minnesota, the corn and the hogs of Iowa, the manufacturing business of Iowa, which is much greater than those people realize—tremendous manufacturing business there now, and in Nebraska the winter wheat and cattle as an offset to our spring wheat.

This territory furnishes a diversity of resourses which in our judgment makes a unit justifiable.

Obviously, a unit in North Dakota or a system of branch banking in North Dakota alone would be fatal. They would be worse off than they are to-day, because the same conditions would embarrass them all at the same time.

So, in order to have a unit sufficiently large in diversity of resources to make it reasonably self-sufficient, we include those States.

And another reason we included them was this: We realized that to have a bank group able to function in a way that I have indicated, it must be large enough to be effective. Whether you like it or not, size is fundamental in many lines of business to-day. It certainly is in banking. It is impossible for the banks in our district to do the things which I have enumerated, financing our industries at home, and so on, without large units. Those large units, in my judgment, will build up the country more and keep more of its wealth at home than any other one thing that has been done since that country started.

We are tired, as we say, of having the cow fed in Minnesota and milked in New York. We have paid tribute to the East from time immemorial and you would be amazed if you knew the percentage of our wealth that passes out of that State every day to other hands; in financing, in insurance, in interest and in 40 ways.

Is there any reason why we should be forbidden to keep that business at home? Is there any reason why we should not expect to be assisted in keeping it home?

It is not monopoly. It is an attempt to prevent monopoly. But I do not know of any way under the sun, of 40 little fellows preventing monopoly unless they get together and cooperate. We have not discovered any way, at least, in our country.

Those are the three reasons that we cover a large territory. In many instances Mr. Pole will tell you where we have taken over banks that were not in beautiful shape. The national bank examiner sat in, has approved of the whole deal, exchange of stock, and been delighted. We have taken out of those banks assets that were not desirable.

Now, have in mind, we did not buy these banks. We exchanged stock in practically every instance where we have a bank to-day, and notably in the leading towns. There are twice as many shareholders to-day, in Minot, for instance, in the Northwest Bancorporation as there is in the bank at Minot. And there is more than twice as much money invested in Northwest Bancorporation stock in Minot these was in the First National Bank of Minot.

Based upon the books of the corporation as of December 31, 1929, the Northwest Bancorporation had 11,469 stockholders, 90 per cent of whom resided in the territory served by affiliated banks. The following table shows the number of stockholders of the Northwest Bancorporation by States:

Minnesota	7,719	Iowa	400
North Dakota	640	Nebraska	250
South Dakota	730	Washington	260
Montana	250	Miscellaneous	750
Wisconsin	420		
Michigan	50	Total	11,469

It is the policy of the corporation to encourage the distribution of stock among customers and employees of the affiliated banks as well as among other persons in the States of the Northwest. We believe that a wide distribution of stock in the territory which the corporation serves is an element of strength and will be an important factor in building up the business of affiliated banks.

Comparison between the number of stockholders of various banks before affiliation with the number of Bancorporation stockholders after affiliation in the same city are given below.

It should be remembered that in giving the number of shareholders of the bank, this includes all shareholders regardless of whether or not they live in the city where the bank is located, while all Bancorporation shareholders given are residents of that city.

Before banks became affiliated

	Bank share-holders	Bancor-poration share-holders
National Citizens Bank, Mankato, Minn	71	110
First National Bank, Winona, Minn	62	112
First National Bank & Trust Co., Fargo, N. Dak	100	177
First National Bank & Trust Co., Minot, N. Dak	20	39
National Bank of Huron, S. Dak	44	61
Security National Bank, Sioux Falls, S. Dak	59	143
National Bank of LaCrosse, Wis	72	220

Now, is not that cooperation? We have made available the stock in the corporation. If it is a good thing, if it is prosperous, our people can participate in it. They would not buy stock in the local bank, many of them, and if it was a bank that they wanted to buy stock in, they could not get it. It was closely held.

We have attempted to put that on a democratic basis. So that the interest in the localities is greater in the cooperative group than it was in the local institution.

Take the matter of taxes. Our banks in North Dakota say, "If you ask us to become branches, where are we going to collect taxes?"

They are taxing these local bank stocks. They are getting a large amount of money annually from them. They say, "If we are a branch of the Northwestern National Bank of Minneapolis, Minnesota will collect all the tax, because the stock will be issued there, and we will have to resort to other forms of taxation to run our government."

I hold no brief either for or against branch banking. I have no prescribed theory on which this whole question can be soundly settled. I only know that the people, in my judgment, in banking and in business, including farmers, in our section of the country believe that we have at least, for the time being, found the solution of our banking problem, and as I say it is hard to say what we will need in 15 or 20 years. I do not know, Mr. Chairman.

I could go on and talk here for four hours, but I have just tried to touch the high spots, and I think I will stop and give the members a chance to ask questions, if they want to, and make further explanation.

Mr. LUCE. Mr. Decker, your very instructive statement might be supplemented, it seems to me, by a little more description of the machinery and the operation.

Mr. DECKER. Yes. You asked certain questions—your chairman did—in a memorandum sent to me. Would you like me to read those?

The first question asked is—

Copy of the charter, date of organization, and by-laws.

We will furnish that. Is that satisfactory?

Mr. LUCE. Yes.

Mr. DECKER. Second:

Furnish list of the directors of your holding company showing the principal business occupation of each.

(The list referred to is as follows:)

NORTHWEST BANCORPORATION

OFFICERS

E. W. Decker, president; J. C. Thomson, vice president and general manager; Robert E. Macgregor, vice president and treasurer; H. D. Thrall, vice president and assistant treasurer; Alex. Highland, vice president and assistant general manager; E. J. Weiser, vice president; Theo. Wold, vice president; Hanford MacNider, vice president. David Williams, vice president; Isaac S. Moore, vice president; Clyde E. Brenton, vice president; Gardner B. Perry, vice president; R. O. Kaufman, vice president; D. R. West, secretary; H. Hallenberg, chief examiner; W. E. Brockman, director, advertising, and publicity; Robert F. Mactavish, assistant treasurer; William N. Johnson, assistant secretary; Grant W. Anderson, assistant secretary; Willis D. Wyard, assistant secretary; J. W. Groves, assistant secretary; John DeJong, assistant secretary; W. Gordon Hegardt, assistant secretary; M. E. Ryan, comptroller.

EXECUTIVE COMMITTEE

E. W. Decker, chairman. W. G. C. Bagley; Clyde E. Brenton; G. W. Burton; W. A. Durst; Alex. Highland; Ford E. Hovey; F. A. Irish; R. E. Macgregor; Hanford MacNider. Isaac S. Moore; W. Z. Sharp; David C. Shepard; J. C. Thomson; H. D. Thrall; George P. Tweed; E. J. Weiser; David Williams; Theodore Wold; G. H. Yates; D. R. West, secretary.

DIRECTORS

Flour and grain interests:

Ward Ames, jr., vice president, Barnes-Ames Co., Duluth Minn.
Julius H. Barnes, grain exporter, Duluth, Minn.
James F. Bell, president, General Mills (Inc.), Minneapolis, Minn.
John Crosby, director, General Mills, (Inc.), Minneapolis, Minn.
Frank T. Heffelfinger, president, F. H. Peavey & Co., Minneapolis, Minn.
John S. Pillsbury, vice president, Pillsbury Flour Mills Co., Minneapolis, Minn.
Henry F. Salyards, president, Ely, Salyards & Co., Duluth, Minn.
A. L. Searle, president, Searle Grain Co., (Ltd.), Minneapolis, Minn.
Adam G. Thomson, president, A. D. Thomson & Co., Duluth, Minn.

Linseed oil products:

Shreve M. Archer, president, Archer-Daniels-Midland Co., Minneapolis, Minn.

Mining interests:

W. B. Castle, vice president, Interlake Iron Corporation, Duluth, Minn.
W. P. Chinn, general manager, mining division, Picklands, Mather & Co., Duluth, Minn.
T. F. Cole, mining, Duluth, Minn.
Edward C. Congdon, mining, Duluth, Minn.
Carl A. Luster, president, Clyde Iron Works, Duluth, Minn.
George P. Tweed, iron ore, Duluth, Minn.

Livestock and packing:

H. G. Black, assistant treasurer, Armour & Co., Chicago, Ill.
John E. Wagner, treasurer, Cudahy Packing Co., Chicago, Ill.

Public utilities:

W. B. T. Belt, president, Northwestern Bell Telephone Co., Omaha, Nebr.
J. E. Davidson, president, Nebraska Power Co., Omaha, Nebr.
A. M. Robertson, vice president, Minneapolis Street Ry. Co., Minneapolis, Minn.

Railroad interests:

Ralph Budd, president, Great Northern Ry. Co., St. Paul, Minn.
Chas. Donnelly, president, Northern Pacific Railroad, St. Paul, Minn.
Carl Gray, jr., vice president, C. St. P. M. & O. Railroad Co., St. Paul, Minn.
H. A. Scandrett, president, C. M. St. P. & P. Railroad Co., Chicago, Ill.

Lawyers:

Howard J. Clark, attorney, Des Moines, Iowa.
Albert C. Cobb, Cobb, Hoke, Benson, Krause & Faegre, Minneapolis, Minn.
Chambers Kellar, attorney, Lead, S. Dak.
J. F. D. Meighen, Meighen, Knudson & Sturtz, Albert Lee, Minn.
Oscar Mitchell, Mitchell, Gillette & Carmichael, attorneys, Duluth, Minn.
Edgar M. Morsman, jr., attorney, Omaha, Nebr.
Arthur E. Nelson, Kerr, Nelson, Burns & Mohan, attorneys, St. Paul, Minn.
S. B. Wilson, chief justice Supreme Court of Minnesota, Mankato, Minn.

Investments and insurance:

Marshall W. Alworth, capitalist, Duluth, Minn.
Fred R. Bigelow, president, St. Paul Fire & Marine Insurance Co., St. Paul, Minn.
Marcus Daly, capitalist, New York, N. Y.
Henry Gund, capitalist, La Crosse, Wis.
F. C. Hubbell, president, F. M. Hubbell Son & Co., Des Moines, Iowa.
Frederick E. Kenaston, president, Stanstead Corporation, Minneapolis, Minn.
S. L. Prentiss, president, The Northern Corporation, Winona, Minn.
Philip L. Ray, J. & W. Seligman & Co., New York, N. Y.
Carl T. Schuneman, president Shuneman Bayliss & Co., St. Paul, Minn.
Oliver P. Thompson, trustee, The Thompson Trust, Des Moines, Iowa.
A. C. Weiss, investments, Duluth, Minn.

Lumber and building materials:
- E. W. Backus, president, Backus-Brooks Co., Minneapolis, Minn.
- E. C. Finkbine, president, Finkbine Lumber Co., Des Moines, Iowa.
- F. E. Keeler, president, Mason City Brick & Tile Co., Mason City, Iowa.
- W. E. Magner, president, Cutler-Magner Co., Duluth, Minn.
- Arthur R. Rogers, president, Rogers Lumber Co., Minneapolis, Minn.
- H. B. Waite, president, H. B. Waite Lumber Co., Minneapolis, Minn.

General business:
- Norman B. Black, publisher, Fargo Forum, Fargo, N. Dak.
- Fred Bohen, president, Meredith Publishing Co., Des Moines, Iowa.
- Joseph Chapman, president, Donaldson Realty Co., Minneapolis, Minn.
- Gardner Cowles, president, Register & Tribune Co., Des Moines, Iowa.
- J. H. Cownie, president, J. H. Cownie Co., Des Moines, Iowa.
- Frederic Crosby, vice president, American Hoist & Derrick Co., St. Paul, Minn.
- George D. Dayton, president, The Dayton Co., Minneapolis, Minn.
- John P. Feuling, president, Central Warehouse Co., St. Paul, Minn.
- J. B. Forrest, vice president and treasurer, Bannons (Inc.), St. Paul, Minn.
- G. L. Heegaard, president, Mandan Mercantile Co., Minneapolis, Minn.
- H. J. McConnon, McConnon & Co., Winona, Minn.
- C. F. Michel, president, La Crosse Refining Co., La Crosse, Wis.
- H. A. Patterson, president Mercantile Co., Mankato, Minn.
- John A. Seeger, president, Seeger Refrigerator Co., St. Paul, Minn.
- C. W. Stott, president Stott Briquet Co., St. Paul, Minn.
- W. A. Tilden, president, Tilden Produce Co., St. Paul, Minn.

Wholesale interests:
- C. O. Follett, president, Smith, Follett & Crowl, Fargo, N. Dak.
- Seth Marshall, president, Marshall-Wells Co., Duluth, Minn.
- J. G. Ordway, manager and assistant treasurer, Crane Co. of Minnesota, St. Paul, Minn.
- N. F. Russell, president, Bridgeman-Russell Co., Duluth, Minn.
- George W. Welles, president, Kelley-How-Thomson Co., Duluth, Minn.

Bankers:
- Theo. Albrecht, president, Union Investment Co., Minneapolis, Minn.
- W. G. C. Bagley, president, First National Bank, Mason City, Iowa.
- R. E. Barron, president, First National Bank & Trust Co., Minot, N. Dak.
- J. W. Barton, vice president, Metropolitan National Bank, Minneapolis, Minn.
- E. J. Bowman, president, Daly Bank & Trust Co., Anaconda, Mont.
- Clyde E. Brenton, president, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa.
- W. H. Brenton, vice president, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa.
- George W. Burton, president, National Bank of La Crosse, La Crosse, Wis.
- H. M. Bushnell, vice president and trust officer, United States National Bank, Omaha, Nebr.
- Alfred Christopherson, president, First National Bank, Albert Lea, Minn.
- Edward W. Decker, president, Northwestern National Bank, Minneapolis, Minn.
- R. E. Driscoll, vice president and cashier, First National Bank, Lead, S. Dak.
- W. A. Durst, president, the Minnesota Loan & Trust Co., Minneapolis, Minn.
- Paul H. Evans, president, Security Bank & Trust Co., Owatonna, Minn.
- H. J. Fahnestock, president, First National Bank & Trust Co., Watertown, S. Dak.
- Lee M. Ford, president, Great Falls National Bank, Great Falls, Mont.
- S. S. Ford, vice president, Great Falls National Bank, Great Falls, Mont.
- G. C. Fullinweider, president, National Bank of Huron, Huron, S. Dak.
- F. H. Gannon, president, First National Bank, Aberdeen, S. Dak.
- J. H. Gilbert, president, First National Bank, Dillon, Mont.
- Alex. Highland, vice president, and assistant general manager, Northwest Bancorporation, Minneapolis, Minn.
- Frank Horton, president, First National Bank, Winona, Minn.
- Ford E. Hovey, president, Stock Yards National Bank, Omaha, Nebr.

Bankers—Continued.

F. A. Irish, vice president, First National Bank & Trust Co., Fargo, N. Dak.

C. E. Johnson, vice president, Empire National Bank, St. Paul, Minn.

Louis C. Kurtz, chairman of board, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa

O. A. Leach, president, Citizens National Bank, Wahpeton, N. Dak.

S. McKennan, president, Union Bank & Trust Co., Helena, Mont.

R. E. Macgregor, vice president, Northwestern National Bank, Minneapolis, Minn.

Hanford MacNider, chairman of board, First National Bank, Mason City, Iowa

W. A. Mahl, vice president, First National Bank, Winona, Minn.

E. L. Mattson, vice president and trust officer, Midland National Bank & Trust Co., Minneapolis, Minn.

Charles B. Mills, president, Midland National Bank & Trust Co., Minneapolis, Minn.

Isaac S. Moore, president, First and American National Bank, Duluth, Minn.

L. T. Morris, president, Citizens National Bank & Trust Co., Watertown S. Dak.

Robert P. Morsman, president, United States National Bank, Omaha, Nebr.

George B. Norris, president, Metropolitan National Bank, Minneapolis, Minn.

C. A. Parker, vice president, First National Bank, Mason City, Iowa

Lynn Peavey, president, Security National Bank & Trust Co., Fairbault, Minn.

Camden Rayburn, vice president, National Bank of Huron, Huron, S. Dak.

Albert J. Robertson, vice president, Iowa-Des Moines, National Bank & Trust Co., Des Moines, Iowa.

R. L. Rutter, president, Spokane & Eastern Trust Co., Spokane, Wash.

A. G. Sam, president, Live Stock National Bank, Sioux City, Iowa.

W. Z. Sharp, president, Security National Bank & Trust Co., Sioux Falls, S. Dak.

David C. Shepard, president, Empire National Bank, St. Paul, Minn.

C. V. Smith, vice president and trust officer, the Minnesota Loan & Trust Co., Minneapolis, Minn.

George W. Sugden, president, National Citizens Bank, Mankato, Minn.

J. C. Thomson, vice president and general manager, Northwest Bancorporation, Minneapolis, Minn.

H. D. Thrall, president, BancNorthwest Co., vice president and treasurer, the Minnesota Loan & Trust Co., Minneapolis, Minn.

Edwin N. Van Horne, president, Continental National Bank, Lincoln, Nebr.

E. J. Weiser, president, First National Bank & Trust Co., Fargo, N. Dak.

D. R. West, vice president and treasurer, BancNorthwest Co., vice president, the Minnesota Loan & Trust Co., Minneapolis, Minn.

David Williams, chairman of board, First & American National Bank, Duluth, Minn.

Theodore Wold, vice president, Northwestern National Bank, Minneapolis, Minn.

G. H. Yates, vice president, United States National Bank, Omaha, Nebr.

There are 126 various lines of business.

Third:

Number, name, location, capital, surplus, deposits and resources of each bank acquired, showing which are national, which State members of the Federal Reserve system, and which are nonmembers.

Mr. Luce. They will be put in the record.

(The list referred to is as follows:)

Northwest Bancorporation member banks

["N" denotes National banks. "SMB" denotes State bank members of Federal Reserve System. Figures as of February 28, 1930]

	Capital	Surplus	Deposits	Resources
First National Bank, Aberdeen, S. Dak. (N)	$100, 000. 00	$100, 000. 00	$2, 904, 279. 50	$3, 244, 518. 64
First National Bank, Albert Lea, Minn. (N)	100, 000. 00	60, 000. 00	2, 425, 421. 70	2, 745, 353. 03
Daly Bank & Trust Co., Anaconda, Mont. (SMB)	100, 000. 00	150, 000. 00	4, 843, 520. 77	5, 195, 487. 37
First National Bank, Appleton, Minn. (N)	25, 000. 00	12, 500. 00	436, 769. 48	481, 322. 65
Austin State Bank, Austin, Minn	60, 000. 00	12, 000. 00	351, 236. 77	433, 518. 85
Dakota National Bank & Trust Co., Bismarck, N. Dak. (N)	100, 000. 00	50, 000. 00	479, 227. 58	657, 701. 32
Brookings County Bank, Brookings, S. Dak.	50, 000. 00	5, 000. 00	282, 979. 53	339, 539. 29
Security National Bank, Cheney, Wash. (N)	50, 000. 00	15, 000. 00	695, 613. 18	859, 756. 99
First National Bank, Deadwood, S. Dak. (N)	150, 000. 00	50, 000. 00	1, 969, 756. 48	2, 165, 026. 39
Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa (N)	2, 000, 000. 00	1, 000, 000. 00	32, 526, 192. 68	36, 812, 085. 93
First National Bank, Dillon, Mont. (N)	200, 000. 00	200, 000. 00	3, 547, 517. 15	4, 140, 607. 91
First & American National Bank, Duluth, Minn. (N)	3, 000, 000. 00	2, 000, 000. 00	29, 307, 080. 49	36, 612, 693. 94
First National Bank & Trust Co., Fargo, N. Dak. (N)	300, 000. 00	200, 000. 00	7, 495, 959. 13	8, 179, 626. 13
First National Bank, Fairbury, Nebr. (N)	100, 000. 00	50, 000. 00	2, 088, 912. 10	2, 398, 945. 04
Harbine Bank, Fairbury, Nebr	100, 000. 00	35, 000. 00	1, 912, 545. 72	2, 168, 410. 80
Second National Bank & Trust Co., Faribault, Minn. (N)	200, 000. 00	40, 000. 00	2, 094, 508. 66	2, 450, 110. 67
Fergus Falls National Bank, Fergus Falls, Minn. (N)	100, 000. 00	50, 000. 00	1, 865, 971. 47	2, 223, 119. 78
Grafton National Bank, Grafton, N. Dak. (N)	100, 000. 00	20, 000. 00	866, 690. 81	1, 124, 004. 33
Great Falls National Bank, Great Falls, Mont. (N)	250, 000. 00	75, 000. 00	2, 331, 469. 65	2, 847, 747. 34
Continental National Bank, Harlowton, Mont. (N)	50, 000. 00	50, 000. 00	606, 391. 75	760, 575. 61
Hill County State Bank, Havre, Mont	100, 000. 00	35, 000. 00	800, 177. 70	977, 815. 57
Union Bank and Trust Co., Helena, Mont. (SMB)	250, 000. 00	150, 000. 00	2, 832, 047. 11	3, 349, 240. 05
National Bank of Huron, Huron, S. Dak. (N)	225, 000. 00	55, 000. 00	3, 622, 392. 55	4, 037, 719. 57
James River National Bank & Trust Co., Jamestown, N. Dak. (N)	100, 000. 00	50, 000. 00	1, 633, 449. 19	1, 825, 980. 80
National Bank of LaCrosse, LaCrosse, Wis. (N)	500, 000. 00	250, 000. 00	5, 185, 867. 22	6, 769, 050. 27
Scanlan-Habberstad Bank & Trust Co., Lanesboro, Minn. (SMB)	100, 000. 00	50, 000. 00	1, 831, 493. 36	2, 021, 484. 63
First National Bank, Lead, S. Dak. (N)	100, 000. 00	100, 000. 00	2, 795, 047. 59	3, 136, 863. 13
Northwest Bank & Trust Co., Lewistown, Mont	100, 000. 00	50, 000. 00	647, 292. 78	814, 215. 16
Continental National Bank, Lincoln, Nebr. (N)	200, 000. 00	200, 000. 00	5, 117, 450. 16	5, 801, 945. 91
First State Bank, Malta, Mont	50, 000. 00	25, 000. 00	1, 084, 195. 42	1, 200, 116. 50
First National Bank, Mandan, N. Dak. (N)	120, 000. 00	50, 000. 00	2, 546, 009. 57	2, 795, 140. 49
National Citizen Bank, Mankato, Minn. (N)	300, 000. 00	100, 000. 00	5, 088, 458. 47	5, 983, 812. 77
First National Bank, Mason City, Iowa (N)	500, 000. 00	250, 000. 00	8, 187, 772. 06	9, 292, 995. 96
Northwest Savings Bank, Mason City Iowa	100, 000. 00	50, 000. 00	339, 806. 96	491, 877. 91
Farmers & Merchants National Bank, Milbank, S. Dak. (N)	50, 000. 00	25, 000. 00	453, 761. 24	539, 706. 81
Bank of Miles City, Miles City, Mont	50, 000. 00	25, 000. 00	571, 893. 23	677, 107. 40
Northwest National Bank, Minneapolis, Minn. (N)	5, 000, 000. 00	2, 000, 000. 00	81, 227, 225. 54	94, 705, 086. 72
Minneapolis Loan & Trust Co., Minneapolis, Minn. (SMB)	1, 000, 000. 00	1, 500, 000. 00	16, 799, 296. 47	20, 288, 982. 00
Second Northwest State Bank, Minneapolis, Minn	50, 000. 00	25, 000. 00	1, 247, 498. 76	1, 354, 731. 37
Third Northwest National Bank, Minneapolis, Minn. (N)	200, 000. 00	20, 000. 00	1, 060, 461. 53	1, 298, 640. 83
Fourth Northwest National Bank, Minneapolis, Minn. (N)	100, 000. 00	100, 000. 00	3, 317, 087. 07	3, 596, 864. 79

Northwest Bancorporation member banks—Continued

	Capital	Surplus	Deposits	Resources
Fifth Northwest National Bank, Minneapolis, Minn. (N)	$100,000.00	$10,000.00	$619.648.08	$741,385.37
Central National Bank, Minneapolis, Minn. (N)	100,000.00	50,000.00	1,712,083.85	1,999,600.91
Metropolitan National Bank, Minneapolis, Minn. (N)	500,000.00	250,000.00	10,093.208.66	11,377,124.48
Midland National Bank & Trust Co., Minneapolis, Minn. (N)	1,000,000.00	500,000.00	18,967,530.91	22,408,823.00
First National Bank & Trust Co., Minot, N. Dak. (N)	100,000.00	50,000.00	4,106.668.35	4,471,862.95
First National Bank, Moorhead, Minn. (N)	100,000.00	50,000.00	880,626.76	1,050,754.87
First National Bank, Napoleon, N. Dak. (N)	250,00.00	8,000.00	204,186.73	244,142.06
State Bank of Northfield, Minn	50,000.00	50,000.00	1,057,724.44	1,170,176.20
Farmers State Bank, Osseo, Minn	25,000.00	15,000.90	713,402.76	802,274.32
Stock Yards National Bank, South Omaha, Nebr. (N)	750,000.00	250,000.00	10,046,495.60	11,549,890.92
South Omaha Savings Bank, South Omaha, Nebr	25,000.00	25,000.00	942,902.97	1,048,424.68
United States National Bank, Omaha, Nebr. (N)	1,100,000.00	700,000.00	20,921,693.44	23,491,925.77
Security Bank & Trust Co., Owatonna, Minn. (SMB)	100,000.00	100,000.00	2,118,590.54	2,382,819.96
First National Bank, Rapid City, S. Dak. (N)	100,000.00	80,000.00	2,049,055.28	2,350,910.50
Live Stock National Bank, Sioux City, Iowa (N)	200,000.00	150,000.00	6,133,734.55	6,765,044.01
Security National Bank, Sioux Falls, S. Dak. (N)	250,000.00	250,000.00	5,454,514.97	6,147,261.33
Empire National Bank, St. Paul, Minn. (N)	350,000.00	150,000.00	5,198,964.82	5,814,830.52
Murray County State Bank, Slayton, Minn	50,000.00	15,000.00	545,596.83	621,389.38
Stock Yards National Bank, South St. Paul, Minn. (N)	350,000.00	100.000.00	4,189,582.56	4,862,945.66
Spokane & Eastern Trust Co., Spokane, Wash. (SMB)	1,000,000.00	250,000.00	11,680,417.59	13,356,117.53
Commercial National Bank, Sturgis, S. Dak. (N)	50,000.00	50,000.00	893,106.88	1,072,491.57
American National Bank & Trust Co., Valley City, N. Dak. (N)	100,000.00	25,000.00	885,274.91	1,033,465.10
Citizens National Bank, Wahpeton, N. Dak. (N)	75,000.00	75,000.00	1,218,084.19	1,480,424.91
Citizens National Bank & Trust Co., Watertown, S. Dak. (N)	100,000.00	50,000.00	1,516,278.59	1,808,701.70
First National Bank & Trust Co., Watertown, S. Dak. (N)	100,000.00	100,000.00	2,238,069.31	2,584,657.22
First National Bank, Winona, Minn. (N)	300,000.00	300,000.00	7,103,684.43	8,041,098.60
Total	23,330,000.00	12,937,500.00	366,911,856.58	425,278,107.67
Union Investment Co. banks	967,000.00	371,500.00	13,923,429.74	16,047,548.19
Total	24,297,000.00	13,309,000.00	380,835,286.32	441,325,655.86

Federal reserve system members	National	State	Non-members	Total
Northwest Bancorporation	48	6	13	67
Union Investment Co.	16		15	31
Total	64	6	28	98

Union Investment Co. banks

[N denotes national banks. No State banks are members Federal reserve system]

	Capital	Surplus	Deposits	Liabilities
MINNESOTA				
First National Bank, Belle Plaine (N)	$25,000.00	$6,000.00	$363,528.04	$427,893.39
Morrison County State Bank, Bowlus	12,000.00	3,000.00	162,443.61	179,489.60
Union State Bank, Browns Valley	25,000.00	5,000.00	385,549.66	421,795.99
Dodge Center State Bank, Dodge Center	25,000.00	5,000.00	363,209.59	403,503.29
Bank of Elk River	20,000.00	15,000.00	401,629.29	451,923.23
First National Bank, Farmington (N)	25,000.00	16,000.00	546,078.50	595,359.90
State Bank of Greenwald	25,000.00	5,000.00	271,222.06	307,400.81
Hastings National Bank, Hastings (N)	50,000.00	10,000.00	802,638.07	878,527.83
First National Bank, Hawley (N)	25,000.00	5,000.00	245,275.27	290,245.34
Security National Bank, Hopkins (N)	50,000.00	10,000.00	628,713.16	759,722.53
First National Bank, Jordan (N)	25,000.00	5,000.00	344,712.03	407,002.09
State Bank of Lake Park	25,000.00	5,000.00	264,040.35	297,809.92
Rock County Bank, Luverne	50,000.00	10,000.00	363,064.09	444,862.18
First National Bank, Montgomery (N)	25,000.00	5,000.00	441,711.72	507,535.41
First National Bank, New Prague (N)	50,000.00	25,000.00	627,438.00	766,895.41
First National Bank, Red Wing (N)	100,000.00	25,000.00	1,348,979.79	1,608,304.86
American State Bank, Richmond	15,000.00	7,500.00	264,286.76	294,203.50
State Bank of Rockville	10,000.00	5,000.00	227,053.92	248,013.55
Union State Bank, Sauk Rapids	30,000.00	6,000.00	175,836.12	214,661.21
First National Bank, Two Harbors (N)	50,000.00	20,000.00	764,273.93	891,811.70
State Bank of Virginia	50,000.00	50,000.00	928,230.15	1,044,568.23
Peoples State Bank, Warren	25,000.00	5,000.00	220,584.07	253,353.47
First National Bank, Waterville (N)	25,000.00	25,000.00	723,101.44	816,805.93
NORTH DAKOTA				
Farmers State Bank, Fairdale	15,000.00	0	61,018.51	78,078.85
State Bank of Starkweather	15,000.00	5,000.00	111,043.67	134,217.41
WISCONSIN				
First National Bank, Baldwin (N)	25,000.00	20,000.00	448,661.03	530,492.74
Berlin State Bank, Berlin	50,000.00	25,000.00	929,116.34	1,031,535.19
First National Bank, Grantsburg (N)	25,000.00	25,000.00	597,084.12	687,217.71
First National Bank, Knapp (N)	25,000.00	5,000.00	191,408.32	226,720.64
First National Bank, New Richmond (N)	25,000.00	5,000.00	230,504.17	289,208.56
First National Bank, Prescott (N)	25,000.00	13,000.00	485,993.96	558,387.71
	967,000.00	371,500.00	13,923,429.74	16,047,548.19

Mr. DECKER. Fourth:

Give a list by name and capital structure of each corporation other than banks, the majority of the stock of which is owned by your holding company.

That will be furnished. It consists largely of securities companies, like the Northwest Bancorporation, and such companies.

Mr. LUCE. That may be handed to the stenographer.

(The list referred to is as follows:)

Affiliated companies

	Capital	Surplus and undivided profits
BancNorthwest Co., Minneapolis, Minn. (securities):		
Common	$200,000.00	$200,456.01
Preferred	1,000,000.00	
Union Investment Co., Minneapolis, Minn. (holding and managing)	500,000.00	369,250.00
Central Co., Minneapolis, Minn. (loans and insurance)	10,000.00	12,516.21
First National Duluth Co., Duluth, Minn. (securities)	750,000.00	7,854.74
Stock Yards Mortgage Co., South St. Paul, Minn. (loans and insurance)	50,000.00	6,786.69
Iowa-Des Moines Co., Des Moines, Iowa (securities)	50,000.00	50,000.00
Montana Livestock Loan Co., Helena, Mont. (loans)	100,000.00	50,000.00
Continental Co., Lincoln, Nebr. (securities)	25,000.00	
U. S. National Co., Omaha, Nebr. (securities)	325,500.00	141,180.44
Cattle Feeders Loan Co., Omaha, Nebr. (loans)	100,000.00	202,625.56
Spokane Eastern Corporation, Spokane, Wash. (owner of Spokane & Eastern Tr. Co. & Spokane Eastern Co.)	2,295,653.00	249,527.50
Spokane Eastern Co., Spokane, Wash. (securities) (owned by Spokane Eastern Corporation)	100,000.00	27,490.57
	5,506,153.00	1,317,687.72

Mr. DECKER. Fifth:

State fully the method of acquiring a bank, whether by cash, purchase of stock, or by exchange of stock, and the method of negotiation.

That can be briefly answered, although I think I have covered it. In nearly every instance banks are acquired by an exchange of stock, although when the corporation was first organized we offered them part cash if they preferred it.

In each acquisition, consideration is given to the territory served by the bank and the need and provision for a more stabilized local banking condition and a broader, more uniform and complete service as well as continuous banking facilities which will not be affected by temporary and local depressions.

Negotiations are generally initiated by those desiring to affiliate, but in some instances the corporation, through its representatives, invites affiliation.

Stock of the corporation is exchanged for stock of the bank, except in cases where it is necessary to recapitalize the bank, and in those instances the old capital structure is wiped out by losses or reserves set up for possible losses, and it is then necessary for the corporation to provide new capital. All exchanges are made on as uniform a basis as is possible, taking into consideration the capital, surplus and undivided profits, resources in use as capital and net accruals; the foregoing constituting the bank's total invested capital. The total invested capital, the volume of deposits, and the average earnings over a 5-year period to a great extent determine the ratio of exchange. Of course, management and future prospects for growth and strategic location are also taken into consideration.

When an agreement has been reached on the exchange ratio, the bank is examined by our own examiners who make the examination without having in mind the terms of the contract and ultimate consummation of the deal. The examination is unbiased with the end in view of obtaining all information possible regarding the prospective affiliate. Before affiliation is finally brought about, the undesirable assets are eliminated and the bank comes into the group on a clean basis and thereafter is maintained in a sound and healthy condition.

Mr. LUCE. How large a proportion of the stock?

Mr. DECKER. Well, out of a total of stock issued to-day——

Mr. LUCE. I mean by any individual bank—in the case of any one bank.

Mr. DECKER. What percentage was cash?

Mr. LUCE. Was all of the stock of the bank exchanged?

Mr. DECKER. About 98 per cent—practically all, with the exception of the director's qualifying shares. The greater part of the stock has been exchanged. You may say that the Northwest Bancorporation owns practically 98 per cent. To be exact, it is 96.2 per cent of all the stock as of December 31, 1929. Some of the rest has been turned in since, which will bring the percentage up.

Now, the basis of exchange of stock, where stock was exchanged, was, of course, a matter of mutual agreement. We took into consideration profits, book value, earnings, prospects, and everything, and agreed upon what would be a fair exchange for their giving up their stock in the local bank and taking for it stock in the holding company, and we retained the stock in the local bank.

Mr. Goodwin. Were the stockholders practically unanimous in the transfer?

Mr. Decker. Yes. About 97 per cent of the stock has been exchanged, so I think that answers that. Of course, a part of the remaining 3 per cent is accounted for by the directors' qualifying shares. So there is very little left. There is no trouble in exchanging stock. They were delighted to get a stock that had a market and that was based on diversified resources in place of a local bank subject to local business vicissitudes and changing management, the perpetuity of which was not assured.

Sixth:

Describe the capital structure of your holding company, showing the classes of stock and the extent and method of the stock distribution.

There is only one kind of stock. There are 1,600,000 out at $50 a share par value. To be exact, there are 1,641,364 shares and of the total amount outstanding, 342,869 were sold at public offering and the balance was used in the exchange of stock with the affiliated banks. So about four-fifths have been issued to member banks and one-fifth to the public.

Mr. Luce. How much was pooled?

Mr. Decker. None at all.

Mr. Luce. All subject to be marketed?

Mr. Decker. Yes, sir.

Mr. Seiberling. What par has the stock?

Mr. Decker. $50. I think you were about to ask me how we would prevent Wall Street from buying control.

Mr. Luce. Yes, sir; that was what I wanted to know. Do you care to answer it now?

Mr. Busby. We can not hear a thing at this end of the table.

Mr. Luce. The point I am driving at is whether this stock, being on the market, can be concentrated by purchase on the part of New York interests or any other interests?

Mr. Decker. My answer is this: One of the leading purposes in the organization of the Northwest Bancorporation was to prevent outside interests obtaining control of our banks. My contention is that it would be much easier for an outside institution to acquire these one hundred-odd different banks, one at a time, and buy from the individual's control, if they wanted to sell, than it would be if they wanted to buy control of the Northwest Bancorporation for the reason that the Northwest Bancorporation is presided over by 126 directors, practically all of whom are wealthy, independent business men. Not one would sell control of that institution knowingly at any price. It would make no difference whatever what the price was. Also, they have that same local pride and local interest which has been in existence for 60 years, which dominates these small banks.

Now, if there is no loyalty anywhere; if money is the only thing in the world, I do not know how you can pass any law toprevent a man selling out to some one else. You may know of a way; I do not.

But my judgment is that what we have done has made it much more difficult, if not impossible, for outside interests to acquire control than would have been the case before the corporation was organized.

We do not want to be dominated by New York or Chicago; it is not sound; it is not good for New York or Chicago, and it is not good for us, and I do not know of a commercial banker—and I know them all personally—in either New York or Chicago that has the slightest desire to acquire control in the Northwest Bancorporation. Every one says they have enough trouble of their own and the only thing that would tempt them to do it would be they felt some one else was going to do it ahead of them. There is always that fear, I suppose.

I think we have reduced that danger to the minimum, because we have set back of it the best brains, the best minds, and the most loyal people who live in our country. If you can not trust them, whom will you trust? They do not want to sell out: they want to buy more stock.

I should be entirely sympathetic with any move on the part of this Congress to pass a law which would make it impossible for people outside of our district to acquire control of our holding company and banks. "Then," perhaps you ask, "why are you not willing to have some law to make it impossible for you to acquire, say, the Minot Bank?"

My answer is that at some place along the line you must build a unit strong enough to stand on its own feet. Minot can not do it alone. Minneapolis and St. Paul, in that district, can.

Our banks are managed by experts, people born and bred in that country. They know the problems and their solutions. Our problems are different from the Atlantic seaboard. For instance, take the freight rates, water rates, tariff, and so forth. We have a pride in our affairs, and we are going to look after our own interests, and that is what we are doing here. We would solicit any assistance from the Government to make it impossible for people outside of our district to acquire control of our banks or holding company. Is that an answer?

Seventh:

Explain fully what control or influence the holding company, or a central bank controlled by the holding company, exercises over the group of banks acquired. That is to say, what sort of central management or central advisory board or committee is set up and exactly how contacts are maintained between the member banks of the group and the central bank or holding company. How is the group policy initiated and applied or enforced?

Well, we have set up a staff of examiners who examine every bank in the group at least once a year, and those examinations will be very thorough, believe me, from a business standpoint, pure and simple. They will review the examinations twice a year, by the national bank examiner, or State bank examiner, as the case may be.

We will have a report from these banks sufficiently often to know what their operations are, but with no desire whatever to dominate a local bank or other local interests who find it wise to follow a certain policy.

Practically every bank in the group, except some of the very small ones, are represented on our board of directors.

By the way, I forgot to say that there is a provision that is either in our constitution or by-laws—I forget which—which makes it mandatory that every bank in our group must have 75 per cent of its directors local men. As a matter of fact, to-day, they are all local men. We have not put a Minneapolis man on the board of directors of any bank that is in our group.

You will say, though, " Well, you can fire them at the annual election and put in another set of directors." Yes, but would it be to our interest to do it if they were not pretty bad? We have a large investment, for instance, at Minot and naturally we want the cooperation of the people, or they will go to some other bank.

Eighth:

Upon what principle are you working in determining the geographical area into which your group of banks will be extended? In other words, what do you consider to be the territorial limits of your group and what determines the limits of the area?

I think I have answered that and I do not think you want me to repeat it.

Affiliated banks of the Northwest Bancorporation are located, generally, through the ninth Federal reserve district and in portions of the seventh, tenth, and twelfth. In the acquisition of banks, Federal reserve district lines have not governed the territory which we have entered. The purpose in the organization of this corporation was to assist in stabilizing the banking conditions in the Northwest States and adjoining natural trade territories. The corporation's activities now cover eight States.

Assurance that continuity and stability of earnings will be maintained is found in the wide diversification of business activity in the territory served by affiliates in Northwest Bancorporation group. Basic sources of wealth in many principal lines are found in the extensive territory from eastern Wisconsin to eastern Washington, from North Dakota to Nebraska, and in the intermediate States, Montana, Minnesota, South Dakota, and Iowa. In some areas business comes primarily from the production of corn, wheat and other grains, dairy products, sugar beets, vegetables and fruit, while livestock production predominates elsewhere. In other areas, banks in the group are concerned primarily with business from the great iron, copper, gold, and silver mining, and oil industries. In the larger cities particularly, manufacturing, in itself widely diversified, contributes a large volume, and other important business comes from insurance, transportation, public service and general wholesale and retail merchandising.

Along with this diversification of outside sources from which business is derived, the organizations in Northwest Bancorporation group diversify within themselves in commercial banking, savings, trust functions, financing of industries, making of mortgage loans, investments, safe deposits, foreign exchange, and all other banking functions.

Ninth:

Give method of central audit and examination of the members of the group of banks owned by your holding company.

I have covered that.

Mr. Luce. Will you tell us a little more about the mechanical process? You told us, for example, that there was no borrower in your field who could get up the securities, who would fail to get a loan. How is that accomplished?

Mr. Decker. It is accomplished by the fact that the local bank naturally wants to take care of its good customers.

Mr. LUCE. But if that bank has not the money, how does it get it and where does it get it?

Mr. DECKER. If the bank has the money it feels free to lend it, knowing if the deposits go off, or there is a crop shortage, he has some one to call on. If he has not the money in that bank, he can easily borrow it from some other bank in the group—say, for example, the Northwestern National Bank, as it was formerly, before the members joined the group—or, in the case of Minot, if Minot has a customer that is good, and that customer wants $50,000 and the local bank can only legally lend $25,000, we will take the additional loan—not a permanent line of credit, but an additional loan to tide over the period, if it is a loan for a period. If he needs additional lines permanently, he will have to secure it from the local banks, as he would if there was not this group. It is not our policy to overload local banks if it is possible to avoid it. If the local borrower is entitled to that loan and there is good reason to believe that some day he will pay it back, and you can do the country some good up there by lending the money, we will provide means for doing it, that could not be done before.

Mr. LUCE. It is the mechanics of the thing that I am interested in. Do you maintain a central office under the name of the Northwest Bancorporation?

Mr. DECKER. Oh, yes.

Mr. LUCE. You have funds there to loan?

Mr. DECKER. Not as a corporation. It is a holding corporation.

Mr. LUCE. Suppose the First National Bank of Minot desires to get money to lend and it does not turn to some other bank, as it might, but turns to you, what do you do?

Mr. DECKER. If they convince us that that is a section where the legitimate borrowing capacity is larger than the depositing capacity, which is not likely to exist except in cases such as those I mentioned, where there are cattle loans or sheep or livestock loans—and those we are providing for in the side corporations—aside from that, there would be very few cases, in my judgment, where deposits in that section will not be sufficient to take care of the legitimate borrowings there. That is the fact. We are not such a poor country that you have to bring in a mass of outside money to take care of the district from the banking standpoint.

Mr. LUCE. I appreciate that.

Mr. DECKER. You mean if John Smith, for example, comes in and borrows $100,000 and puts in a note?

Mr. LUCE. Yes.

Mr. DECKER. We will take that note into our portfolio. The holding company, of course, makes not loans. They will send it, probably in our instance, to the Northwestern National Bank, which is the largest unit in the Northwest Bancorporation.

Mr. LUCE. Suppose the bank in question has not the money that you are referring to?

Mr. DECKER. The Minot bank?

Mr. LUCE. The National Bank of Minot.

Mr. DECKER. Well, supposing the National City Bank has not the money to lend, they will find a place to get it.

Mr. LUCE. I think you are drawing a contrast between the operations of the group system and the branch system.

Mr. DECKER. Yes; on this theory——

Mr. LUCE. Let me bring out what I am trying to understand.

Mr. DECKER. Go ahead.

Mr. LUCE. A branch bank is a branch of a parent bank, which conducts a large banking business with deposits and resources of all kinds, so that it can direct its funds to this or to that locality where there may be a greater need or greater profit.

Mr. DECKER. Right.

Mr. LUCE. Now is there any corresponding machinery under your system to do the same thing?

Mr. DECKER. No.

Mr. LUCE. If more money is necessary in North Dakota at a given time than is necessary in Minnesota, have you any method for diverting funds from one part of your area to another part of your area, as a branch bank can?

Mr. DECKER. Plenty of means of doing it, if our best judgment indicates that it should be done.

Mr. LUCE. What would be the means?

Mr. DECKER. The bank at Minot, for instance, if that was the point where loans were larger in proportion than deposits, would rediscount. First, they will undoubtedly rediscount with the Northwestern National Bank at Minneapolis, which had been their correspondent many years before they joined the group.

If it became apparent that the Minot bank was permanently and constantly overloaning, we would go up there and see if it was necessary and whether the management was lax in putting out too much money in slow loans and discover whether there was no evidence that we would get it back in a particular time. We would review that situation and determine what was the fair and right thing to do and, having in mind our large investment in the Minot bank, our selfish interest would demand that the interests there be protected.

To answer your question, a group bank, as we operate it, would not operate quite as quickly nor would it be as well oiled, in shifting money from one section to another, as a branch bank; and that is one of the things that our people object to. They do not want all their money taken out of one section and loaned to another unless they can be assured they can have it at a time when needed.

Mr. BEEDY. Are you referring to the officers of the Northwestern National Bank of Minneapolis?

Mr. DECKER. Yes.

Mr. BEEDY. You do not refer to the set-up of your holding corporation?

Mr. DECKER. I would not say that. We have a president, general manager and corps of officers. Unquestionably the officers will supervise the operation of these banks, and the Minot Bank will have practically the same scrutiny under the Northwest Bancorporation management as it would have if it was a branch of the Northwestern National Bank. We have our money invested there and we will see that it is properly loaned, but we will leave it to the local management of the Minot Bank and the management of these local institutions, as long as we are satisfied they are running them right, and when we are satisfied they are not, we are going to correct that situation.

Mr. LUCE. Let me ask some questions about this matter of local management. You have given us to understand that the stock, which was once owned by the people in that locality, is now owned by what is virtually a cooperative association; however, that the directors are still elected locally. The common experience of mankind is that office without power sooner or later degenerates into something of a traversty. We find it here in Congress, as illustrated, for example, by the fact that the Committee on Appropriations holds the purse strings and, therefore, in many directions controls, and that other committees have been shorn of much of their responsibility and power.

Why do you assume that, through a period of years, a local board of directors, that has no final responsibility, will meet the needs of a community as a unit bank would meet it? For instance, a board of directors, confronted by some difficult situation, will be led to feel, "Well, we have no authority here; we have no responsibility; no final authority or responsibility. The men down in Minneapolis will have to carry this load."

Do you not apprehend that, in time, there may develop in this or that locality, a situation that might have been avoided if the men who run the bank, own, and control the bank, and were responsible for it?

Mr. DECKER. I think there is a danger, yes; but so long as those men are the best men in the community; so long as they have a large financial interest in the Northwest Bancorporation, a larger financial interest than they had before in the local bank, and so long as they have the power, which we do not take away from them, the management of the bank, we believe, and we have sufficient faith in humanity to believe, that that is a workable plan.

Now, if I am wrong; if you can not trust these men and they will say, "Let George do it now; he is responsible; why should I worry; I have my stock in the company and can sell it and go to California and quit"—if that is what the whole country does, there is just one result and there will be branch banking.

But to-day, if you choose to call ours an experiment, I believe it is the best experiment that could be tried to retain all we have now, and yet meet the changing situation, without necessarily running counter to a very strong local feeling in our section against branch banking.

I believe that the psychology of the situation has to be taken into full consideration, particularly in banking, because you must have the confidence of the community in order to draw out the money from hiding.

We think we have found a way so that the local depositors and borrowers—the fellows on the street—are going to have greater safety and better service than they had before, or that they would get to-day under branch banking and, therefore, we believe that it is a better plan.

Now, I can not guarantee that, as you suggest, some day in this particular case, if this group of directors fall down on the job—well, we would see that coming in advance and we would provide men there that will take the responsibility—but if I am a director in the Standard Oil Co. of New Jersey, or some big corporation, or even the National City Bank of New York, I do not think it is fair to assume that, because it is a big institution and a long ways off, I would not be a good director, if responsibility is placed on me. We place that responsibility absolutely on them. We do not take any authority away from them. Naturally, they will not assume responsibility without authority, and we would not let them assume authority without responsibility.

Mr. LUCE. There is this difference between group and branch banking, that when a doubtful loan is in question, I understand in the case of your group banks, you learn of it only once a year from your examiners when they go around and examine your banks. The central office of a branch-bank system learns of it within 20 minutes.

Mr. DECKER. There will be no loans of any size or unusual character made without submitting them to the head office. But there is exactly where the local board of directors assume their authority. If, in their judgment, there is a safe loan to be made, they will go ahead and make it. We will say it is a new one and has not been passed on before, or comes up since our men examined that bank. We expect those local directors to assume the responsibility of that loan. I believe it is safe to assume that they will, because they have been there for years, and know the local situation. These are not new men. They have been operating successful banks. Mind you, the banks we have taken in are not banks, with a few exceptions, where we felt we had to lend assistance. As a rule the banks are 50 or 60 years old and successful banks. We have not picked up a lot of cripples. We are picking up nothing but good banks, because we felt that the only way to make a banking institution there that would survive would be to have a cooperative banking group of good banks, and not poor ones.

So, we put that responsibility on the local board. If we discover that they have not good judgment, why, they will be told so.

Mr. LUCE. But then you will be locking the stable door after the horse has been stolen.

Mr. DECKER. They are not going to make a lot of bad loans before we know it. We get reports every 30 days. We also get the State Bank and National Bank Examiners' reports.

Mr. LUCE. I think perhaps you misunderstand, from the burden of my questions——

Mr. DECKER. If I speak earnestly, you will understand that I mean nothing personal.

Mr. LUCE. These hearings began with the statement by the Comptroller to the effect that the overwhelming occasion for an investigation was the fact that thousands—I think it was 9,000 banks—have failed in the past decade; that the safety of the funds of the people is our chief concern.

Mr. DECKER. Right; absolutely right.

Mr. LUCE. And in order to have you throw further light upon this question as to how increased safety is going to be accomplished by your system, I will further inform you that this committee has now, through 8 or 10 years, watched the failure of the cooperative idea to function as was hoped in the farm-loan system, and some of us are not very hopeful about the possibility of the cooperative idea sufficing to meet the banking situation.

Mr. DECKER. Neither am I.

Mr. Luce. Now, you present to us a system that is based purely upon the cooperative theory, but as yet, to be frank, it does not disclose a great addition of safety to depositors of the various banks.

Mr. Decker. My answer to that is this, the depositor in the local bank has everything he had before in the way of safety. He has the knowledge that the management of that bank is going to be checked and watched as it was not before. He has the knowledge that the Northwest Bancorporation is back of it, with its large resources, and they are able to take out of that bank the securities which may get into it that are not desirable.

After all, management is nine-tenths of the law. Heretofore his bank had a manager and the only one who was watching him was his directors. They were all local men. Now he has all that, and he has the Northwest Bancorporation's organization watching him in addition to that, checking him and advising him and assisting him.

So I think that the depositors in any one of the banks in our group have double security, at least, to-day, over what they had before. They have lost nothing and have gained a lot.

Mr. Luce. One further question and then I have to be excused, to go on the floor by reason of a matter in which I am vitally concerned. Is any uniformity in discount rates secured or encouraged?

Mr. Decker. I did not get that.

Mr. Luce. Is any uniformity in the discount rate obtained or encouraged?

Mr. Decker. Between the banks in the group?

Mr. Luce. Yes.

Mr. Decker. No, sir.

Mr. Strong. I was called away and I do not know whether or not you have advised the committee regarding the plan of your group organization.

Mr. Decker. Yes.

Mr. Strong. Let me ask you this: Suppose a bank get in trouble——

Mr. Decker. One of our banks?

Mr. Strong. Yes; one of your banks.

Mr. Decker. It is not going to get in trouble.

Mr. Strong. But suppose it does.

Mr. Decker. All right.

Mr. Strong. And you send your committee down there and take out $100,000 worth of paper and replace it with the funds of the bank and there is a loss on that paper. Who stands that loss?

Mr. Decker. The Northwest Bancorporation. We would put new capital into the bank immediately.

Mr. Strong. The other members of the cooperative organization—are they not liable to resent the fact that you took the profits or capital of the cooperative group to repair an injury to a single member of the organization?

Mr. Decker. Not if they believe in the principle of the group.

Mr. Strong. Well, supposing I am the president of a large bank in a city called A, and a bank in a city named B gets into trouble. It may be not very far from my bank. How long will I be satisfied with taking the profits or the capital of the group to which I belong, to help out this bank at B?

Mr. DECKER. The answer to that is this, that, as president of the bank of A, you are a director of the Northwest Bancorporation and you helped get up the organization and know its policies and methods. You went into that banking corporation and exchanged your stock in the local bank for the stock in the Northwest Bancorporation because you thought it was better for yourself and your bank. You must have believed in the principle involved, or you would not have gone in. You must believe that the directors of the Northwest Bancorporation will see that proper officers, at all times, look after these banks, and do not allow them to make excessive loans. Of course there may be some losses, but the minute a bank gives evidence, through its management, of making excessive loans, that management will be supplanted.

I do not want to give the impression that the Northwest Bancorporation will not have any control or supervision of these banks so they will not at all times know what is going on, because I would not have put our money into it; we would not have given up a record of 60 years without missing a dividend, if we did not believe we had set up an organization which we proposed to watch and follow and manage, to make our investment there good.

Mr. STRONG. When a bank goes into your group, it does bury itself individually and the owners place their stock in the Northwest Bancorporation. If that is true, I do not see how any individuality of management and local control can prevail.

Mr. DECKER. That local control is only exercised in case of emergency.

Mr. STRONG. You mean that central control?

Mr. DECKER. Yes, sir; absolutely. If we have a group of fellows up in Minot who do not know how to run the bank, we will find it out and put some one in that does.

Mr. STRONG. The local institution continues to elect its board of directors?

Mr. DECKER. Well, the election of the board has to be made by the shareholders, of course.

Mr. STRONG. Then, in case of mismanagement, your group organization steps in and supplants that authority?

Mr. DECKER. Yes, sir.

Mr. STRONG. And has the right to vote those directors out and take charge?

Mr. DECKER. Absolutely.

Mr. STRONG. Then, there is a domination by the central group?

Mr. DECKER. To that extent, absolutely.

Mr. STRONG. You have formed a group organization of big, strong banks. What becomes of the little banks in the small communities?

Mr. DECKER. We have some small banks, through the Union Investment Co.—about 31 banks. I do not know how small some are, but they are very small.

Mr. STRONG. Are those banks branches of the Union Investment Co.?

Mr. DECKER. No; the Union Investment Co. is a small holding company which has been in existence for a great many years which you may refer to as approximating what we call chain banking. We bought or exchanged stock with the shareholders of the Union

Investment Co. just as we have with the various banks, because we wanted those large banks to look after small banks that wanted to come into the organization, so that local institution, which is better qualified to handle the small local banks, than the Northwest Bancorporation, has charge of them.

Mr. STRONG. Then, your small banks are handled by chain banking institutions within your group?

Mr. DECKER. There is just that one institution and there will be no more. That is a matter of convenience. There is an instance of taking in 31 small banks that wanted to come in. We took them in through that organization, instead of directly through the corporation, because that special organization is organized to look after little banks and they require different supervision than such a bank as is located at Minot, where you have a strong board of directors.

Mr. STRONG. Within the territory of your group corporation, there are a great many other small banks?

Mr. DECKER. Yes, sir.

Mr. STRONG. What do you propose for their protection?

Mr. DECKER. You mean banks that are not in our group?

Mr. STRONG. Yes. Come into your group?

Mr. DECKER. That depends.

Mr. STRONG. What?

Mr. DECKER. That depends on a great many things.

Mr. STRONG. You would not take them in if they were not strong banks?

Mr. DECKER. I would not take them in if we did not think we could make money at that point by operating a branch there, nor would any one else.

Mr. STRONG. Would you ever put in a competing bank; would your group ever install or create another bank in competition with a bank outside your group?

Mr. DECKER. No, sir; no such instance has ever been brought up. We have plenty of places to go in without competing with other banks.

Mr. STRONG. Then, your plan of cooperative banks or group banks will not remedy the need of proper banking facilities in the small towns?

Mr. DECKER. No, sir.

Mr. STRONG. How do you propose to take care of those?

Mr. DECKER. I think I mentioned that while you were out of the room.

Mr. STRONG. I beg your pardon.

Mr. DECKER. That, in my judgment, under the present terms and conditions, is the place where branch banking could and should function. There are small towns where either a county seat bank, or a larger bank in the State, could afford to operate a branch economically for the purpose of receiving deposits, and perhaps making small loans, if there was a demand, where we could not afford, nor could anyone else afford, to invest the money to operate a unit bank. In those instances, I believe branch banking is the only answer.

Mr. STRONG. But a branch banking group could hardly be organized and continued successfully that would only control little banks. They would want to go into the larger towns.

Mr. DECKER. Yes, sir; that is the reason I say branch banking should supplement group banking and not be fastened onto it; otherwise, in the end, the situation will be worse than in the beginning.

Mr. STRONG. You want the branch bank established to be a branch of some bank in your group?

Mr. DECKER. No; that would be a freeze-out game.

But, for illustration, here is a good county seat, with two banks. One bank is in our group and the other bank is in Mr. Wakefield's organization. I assume any law passed will enable a bank to establish branches only with the approval of the comptroller. That will be for him to answer whether the bank is strong enough and sufficiently capitalized to operate branches in its immediate territory.

Mr. STRONG. I do not see how your plan will work in conjunction with the branch-banking scheme unless you dominate and control the branch banks in your territory.

Mr. DECKER. Well, whether we dominate or control them, I think, is a question whether we render better service and the people prefer to do business with us than with some one else.

Mr. STRONG. Then it comes to this: Cooperative group banking in larger places for the larger places, and branch banking for the small towns?

Mr. DECKER. Yes, sir; but that branch banking limited to those small towns, without the support of the other, in my judgment, would be fatal—particularly in the rural districts, where they would be.

Mr. STRONG. Do you think there would be any danger in competition of that kind, of the people living in the smaller communities of the United States, of which there are, of course, thousands, not getting proper banking service?

Mr. DECKER. I did not get that.

Mr. STRONG. Do you think there is any danger, if your system is adopted, that the people living in the thousands of small towns will not get the proper banking service?

Mr. DECKER. I think there is less danger of their not receiving it under our system than any other system proposed in this country, or any other country. In Canada, half a dozen banks control the whole business.

We are not proposing to go that far. We propose to adopt the features of their system which we have been forced to adopt under the changing conditions, but retain all local pride and responsibility that is possible under our system.

Mr. STRONG. Now, the Comptroller of the Currency and the Governor of the Federal Reserve System has approved branch banking over the United States confined to trade areas.

Mr. DECKER. Yes.

Mr. STRONG. In your case, Minneapolis would be a trade area.

Mr. DECKER. You mean it would be a center of a trade area?

Mr. STRONG. Yes.

Mr. DECKER. Yes.

Mr. STRONG. Then branch banking, under the proposition proposed by the comptroller, and approved by the Governor of the Federal reserve system, would be established in your community or trade area?

Mr. DECKER. It would be authorized.

Mr. STRONG. That would set up competition between some large branch bank and your group?

Mr. DECKER. Yes, sir—right.

Mr. STRONG. Well, your idea is that also a law, if one were passed, would have to legalize or authorize or permit the continuance of your form of cooperative group bank?

Mr. DECKER. Exactly.

Mr. STRONG. And let the two systems operate in competition?

Mr. DECKER. If they do naturally, yes, sir; but not to destroy what has been set up in a natural, evolutionary way by forcing another system at a time when public sentiment is against that in the country.

I do not fear the competition of branch banking, provided you keep Mr. Chase National and Mr. National City Bank of New York out of our district. Anyone who chooses to come into our district and organize a large bank in Minneapolis or a small bank in Podunk and put their money in competition with us, we are willing. If we can not stand up against legitimate competition, we are not worthy to be there.

Mr. STRONG. Then, you do not propose a monopoly of banking by group banking or chain banking in trade areas?

Mr. DECKER. I will answer that—I think I have already answered it, though—the so-called group banking, set up in an area sufficiently large to include resources of sufficient diversity to establish a sound unit—that system asks no assistance of Congress, or of anyone else to-day. We are not asking for any assistance.

Now, if Congress chooses to set up a branch banking system, limited to a somewhat similar area, we will say, in competition with us, we have no objection whatever, and if that system is better, we will be the first ones to adopt it. We are not wedded to our system. We have developed what we believe to be the best under all the existing circumstances in our district, and if anyone can show us a better, we will be delighted.

Mr. STRONG. How long has your system been in effect?

Mr. DECKER. About a year, last January.

Mr. STRONG. Is it growing?

Mr. DECKER. In number of banks?

Mr. STRONG. Yes.

Mr. DECKER. Well, we are not taking in banks very fast, for a couple of reasons: First, we want to have time in which to digest what we have swallowed. That is not the proper word, but you have used the word "monopoly" and so I will use the word "swallow."

Mr. STRONG. I think that is very apt.

Mr. DECKER. And, secondly, the Secretary of the Treasury, in his annual message, stated that he hoped while Congress was making an exhaustive study of group and branch banking, that group banking would proceed very moderately. We respected his suggestion, as Mr. Wakefield, at least, will agree, and immediately changed our policy out of respect for his suggestion. Now we have banks camping on our doorstep by the hundreds demanding not that we keep out of their country, but that we get in their country. That comes from the country, from the little fellow on the street, who thinks he is entitled to protection and service.

Mr. STRONG. And is he not?

Mr. DECKER. Absolutely; and we have found no better way of furnishing it.

Mr. STRONG. And it will be your intention, later, to expand and take in all worthy banks in that territory?

Mr. DECKER. I would not say that; but when the Lord has given us a garden to hoe I think we had better hoe the whole garden and get all the weeds out.

Mr. STRONG. And if branch banking wants to come in and wants to do some hoeing, what will be your attitude?

Mr. DECKER. We will furnish him with a hoe, because every time he hoes out a weed he helps us.

Mr. STRONG. Providing he does not attack your weeds?

Mr. DECKER. We will take care of our weeds.

Mr. STRONG. But do you honestly think there will be continued, throughout a great many years, real competition between two such systems as that in a trade area? Would not either they swallow you, or you swallow them?

Mr. DECKER. You mean small banks?

Mr. STRONG. You say you eventually expect to take in the little banks that are knocking at your door.

Mr. DECKER. Oh, no.

Mr. STRONG. I mean the desirable ones. You will not take in banks that are not making money.

Now, if we follow the suggestion of the comptroller and set up a branch bank in a trade area, I want to ask you if it is your real, honest opinion, as the result of your experience in life, that those two systems will continue in competition with each other, or will not the natural result be that one will absorb the other?

Mr. DECKER. My answer is that the banking business of this country is absolutely under the control of either the Government of the United States or one of the 48 States. They grant charters. Money is the most difficult thing in the world to monopolize, notwithstanding the general feeling to the contrary. It flows like water. To-day we make our loans in Minneapolis in competition with London absolutely, and we have to meet that competition. It would certainly be against our interests to have, we will say, just one group in our whole trade area with no competition. Competition, unless it is destructive, is the life of trade. If it is destructive, it is the death of trade; absolutely.

Mr. STRONG. Absolutely.

Mr. DECKER. There is less danger of monopoly, in my judgment, in banking than in almost any line, for this reason: We have no patent on it; we do not own the mine from which it is taken. The Government grants the charters, and if, however, we can see greater security to the depositor and better service to the borrower by a system which we have set up, then the fellow on the street will take care of that business himself, because he will go where he chooses to go.

Mr. STRONG. All you say is true; and yet any competitor coming into your territory now would have a pretty hard row to hoe, would he not?

Mr. DECKER. I think, as a compliment——

Mr. STRONG. That is the way I intend it.

Mr. DECKER. As a compliment to the present organizations, he would have to be a pretty good banker and have some capital to run it right. If he has, we will welcome him.

Mr. STRONG. The fact you have seen fit to gain strength through the uniting of your banking institutions, would not that same incentive, if you had a great competitor up there in branch banking or any other competition—would not that same incentive lead you to a combination of those groups?

Mr. DECKER. I do not think so. I think it would be the worst thing that could happen to the development of the country and the worst thing that could happen to the banking situation. Competition keeps my boys on their toes.

Mr. STRONG. You have created a monopoly of the best banks in that territory and you do not want New York to come in.

Mr. DECKER. I would not say we have created a monopoly.

Mr. STRONG. You have created a combination so strong that all the rest want to get in.

Mr. DECKER. You are speaking about Mr. Wakefield and ourselves, also?

Mr. STRONG. Oh, no.

Mr. DECKER. If you think we have no competitor, come up and listen to some of the cussing and discussing that is going on up there.

Mr. STRONG. Does Mr. Wakefield join you in the wish that New York shall not come in?

Mr. WAKEFIELD. Absolutely.

Mr. DECKER. Of course. That is exactly what we are trying to avoid. When you talk about monopoly, do not lose sight of the fact that in order to protect yourself you have to be of sufficient size.

Mr. STRONG. I will avoid the use of the word "monopoly." Let us say we will have controlling groups—and I speak of groups of banks like yourself and the gentleman behind you, Mr. Wakefield—in that trade area. Evidently you do not want anyone else to come in.

Mr. DECKER. I have not said so.

Mr. STRONG. You do not want New York or Chicago to come in?

Mr. DECKER. No, sir; because I do not think it is a good thing for our territory or for them.

Mr. STRONG. Then, it is your idea that it would be a pretty good thing to set up a system by which we would have great groups dominating or controlling the banking business in trade areas, but not in the United States as a whole?

Mr. DECKER. Do not misunderstand me. We have no objection to New York or Chicago coming in with capital and starting banks. What we object to is for them to be able to establish branches of their existing banks. If the people connected with the Chase National Bank of New York choose to come into Minneapolis and organize a $5,000,000 bank, they have the same right as anyone. We do not object to that. We do object, however, to a domination in New York of our loan resources, and the reason we do not object to the same domination, if you choose to call it that, on our part as against Minot—which would be a perfectly legitimate question for you to ask me—is that unless you set up a unit of sufficient size and strength you can not protect your country, and the answer is that

Minot wants to come in. When we want to go into New York that will be a different story, but it will not be in my day.

Mr. STRONG. I can see how you set up a strong system of banks in your territory, but I can not see what will come of the small banks in the small community.

Mr. DECKER. What do you care about the small bank in the small community? You are concerned about the man in the small community.

Mr. STRONG. If I was a man in a small community, I would care.

Mr. DECKER. I came from Chicago over the Baltimore & Ohio Railroad. I do not care who owns that railroad. All I am interested in is whether it has a good roadbed and furnishes good transportation service. Banking is a vehicle for the convenience of business, and you must have strong banks.

Mr. STRONG. That is the argument of the Comptroller for branch banking.

Mr. DECKER. Well, if our system is not better, as we think it is, for our section of the country and for the little fellow and the big fellow, you need not worry about what will work out, because nature will take its course.

Mr. STRONG. What I can not see is that if branch banking, group banking, and chain banking are proper kinds of banking in trade areas, irrespective of the fact they may not take in some smaller fish, why is it objectionable as a nation-wide banking system?

Mr. DECKER. I will tell you.

Mr. STRONG. You are willing to absorb, in Minneapolis, the other towns, the larger towns, where you have group banking—you are willing to absorb the interests and life and necessities of the banks in the little towns. Why should you object to New York absorbing the interests and growth and development of your organization?

Mr. DECKER. I will tell you why. If you go to the leading bankers of London and Berlin and Paris, they will tell you, "For God's sake, do not set up in your country such a system as we have got." Why? Because they do not care for that great responsibility.

When you come to the United States, you have an entirely different problem. You have an empire 3,000 miles long and 1,500 miles wide, with a republican form of government, which, as the Irishman told his friend as he landed in New York and asked what kind of a democracy we had—"Why," he said, "each man here is as good as any other man, and most of them are a damn sight better."

That is the independent American spirit which we do not want to crush.

Mr. STRONG. But how——

Mr. DECKER. Now, wait a minute. Our territory is so large, and the interests so diverse that, in my judgment, a nation-wide system of branch banking would be fundamentally unsound, undesirable, and not even courted by New York or Chicago banks that know their business to-day.

Mr. STRONG. The governor of the Federal Reserve Board told us the other day that he thought nation-wide branch banking would come; perhaps within 50 years.

Mr. GOLDSBOROUGH. Governor Young said that.

Mr. STRONG. Yes; Governor Young—that nation-wide branch banking would come within perhaps 50 years. He was opposed to it now, because we did not have the men trained to handle it; consequently, he is willing to limit it to trade areas, but he gave the implication very plainly that as soon as men are trained for nation-wide branch banking, he would have no objection.

The suggestion that the responsibility would prevent men that might handle nation-wide branch banking from desiring it, would be entirely overcome by the profits. Objection to responsibility is generally overcome by profits. No man likes the responsibility of any work, but he assumes it and carries it for the profits that is in it.

Mr. DECKER. My answer is that I am not smart enough to say what will come in 50 years, or 25 years, or even 15 years. My training has been to meet the situation as it is, in a practical way, handle it the best I know how, in the interests of the people, and take care of to-morrow's problems when they come.

Mr. STRONG. I appreciate that and it may be that no one in Congress is smart enough to work it out and yet we will be asked to do it. What is your suggestion and your proposition? Should we permit branch banking in your trade area?

Mr. DECKER. I have no objection to it whatsoever.

Mr. STRONG. And you are perfectly willing to approve the comptroller's proposition?

Mr. DECKER. Perfectly willing and personally I have no objection to it whatsoever. Outside of some cities I have in mind, I believe that the rank and file of the people are unalterably opposed to it. I respect their wishes. I believe it is good business to respect their wishes. Therefore I would suggest, if you want my suggestion, that I certainly would not advise Congress to hurry into branch banking. I would not hurry into anything until I was pretty sure I was right.

Mr. STRONG. I do not think we shall.

Mr. DECKER. Because in the meantime, and in the moving of natural forces and natural developments, that situation will be taken care of. There are forces at work to-day which may make your problem, Mr. Strong, very much simpler three or four years from to-day. None of us see very clearly to-day.

The members of this particular committee are facing a responsibility in banking which has not been equaled since the day of Andrew Jackson. Therefore I would suggest that you make a very exhaustive study. This country is rich. We have gone through the worst of it, I hope, and I would not hurry into anything until I was sure of a solution.

Mr. STRONG. We are doing that. In the meantime we are advised that banks are organizing groups to do what the law contemplates they shall not do.

Mr. DECKER. I do not follow you there. I do not see anything in the law that prohibits——

Mr. STRONG. We tried to prevent national banks from engaging in branch banking, and then we provided a limitation whereby they should only engage in it in States permitting branch banking by State banks, and then only in the cities where the parent bank was located.

Mr. DECKER. Yes.

Mr. STRONG. Then the group and chain bank were developed, under which they can go outside of those lines, and they are doing now what, by the McFadden Act, we sought to prevent the national banks from doing.

Now, this development is going on all over the country. How long shall we sit down and let this development go on? The time finally will come when we can not control it. I realize, and this committee realizes, that we have to go slow, and, I think, that is our intention, but if we go too slowly we may meet a condition where you gentlemen have built up something that we can not overcome without a catastrophe.

Mr. DECKER. You will do ten times as much damage to the business in the United States in a hurried and ill-advised action than you will to allow the bankers to take care of the banking business in the United States.

Mr. STRONG. We do not act hurriedly or ill advisedly, but you have taken care of the big banking interests in your territory and others are doing so in other territories, and then when we start in and try to provide some law by which there will be some control, then, you think, the catastrophe will come. You think we ought to allow the bankers to take care of the banking business of the United States. Our fear is that the longer we delay it the greater the catastrophe will be.

Mr. DECKER. Please differentiate between looking after small banks and little people. You are not interested in protecting little or big banks; you are interested in the people of the United States. The little fellow, I maintain, is entitled to the same protection and safety and the same service in borrowing or anything else as the big fellow.

Mr. STRONG. But we have to look after the little fellow. The big fellow will look after himself.

Mr. DECKER. That is true. That is a fundamental truth. But there is a chance for the little fellow to become a big fellow.

Mr. STRONG. And there is a big chance of the big fellow gobbling up the little fellow.

Mr. DECKER. That has existed from time immemorial. But there is no country in the world, either now or at any time in history, when the little fellow with industry and ability and application stands one-tenth the show he does to-day in the United States. It is all bunk saying that the little fellow does not have a chance. He has the most excellent chance he ever had, and the banks are not holding him back.

Mr. STRONG. He has a chance unless he is an individual business man or an individual banker against the chain stores and department stores, and various groups and chain banking combinations.

Mr. STRONG. It is about 1 o'clock. I have no further questions. Do you want to adjourn now, or do you want to continue?

Mr. FENN. I have only a question or two. I should like to ask them before we adjourn.

Mr. STRONG. Very well, proceed.

Mr. FENN. As I understand, there are two of these associations represented here—the Northwest Bancorporation and the First Bank Stock?

Mr. DECKER. Yes.

Mr. FENN. Now, which of them are in the cooperative system?

Mr. DECKER. We call it group banking. It is practically and identically the same.

Mr. FENN. In your membership, if I can use that term, of these two organizations, are there State and National banks, too?

Mr. DECKER. Yes, sir.

Mr. FENN. Irrespective of charters?

Mr. DECKER. Absolutely.

Mr. FENN. Now, is there any considerable group of banks there, State, or National, in your area that do not belong to one or the other of these associations?

Mr. DECKER. Not of any considerable size.

Mr. FENN. Mostly small banks that you have described?

Mr. DECKER. Yes, sir.

Mr. FENN. And I understood you to say there was another association?

Mr. DECKER. The Union Investment.

Mr. FENN. I think you said it was somewhat connected with your association?

Mr. DECKER. Yes, sir.

Mr. FENN. And takes care of those—I use the term "takes care of"—takes supervision of those small country banks?

Mr. DECKER. Let me answer your question this way: There are a number of small so-called groups. Take the John W. Black Co. They have about 18 or 20 banks operating entirely independently and then Bremer, of St. Paul. He is personally a shareholder of a hundred banks in our territory, and there are a number of other smaller ones, like Hazlett, with 8 or 10 banks, and has been operating for many years.

Mr. FENN. Are all the banks in the Minneapolis area connected with an association?

Mr. DECKER. Not at all. There are about 2,300 banks left in the ninth district. Out of that 2,300 there certainly are not in excess of 300 in the groups, large and small.

Mr. FENN. Now, the important thing—important in reference to capital and surplus—are there important banks not connected with any one of these groups?

Mr. DECKER. Yes; indeed.

Mr. FENN. What is their impression of group banking?

Mr. DECKER. I would say, generally speaking, they are watchfully waiting.

Mr. FENN. You do not know whether their sentiment is in favor of branch or group banking?

Mr. DECKER. Take the First National of Butte and the Bremer Bank in St. Paul have sixteen or eighteen millions of deposits, entirely independent, and there are other banks with three, six, or eight millions in deposits, not in any group and not being disturbed, but the great majority, in number of banks, of course, in the whole district, either in or out of groups, are small banks.

Mr. FENN. Now, how many banks in your group—the national banks are, of necessity, members of the Federal reserve system—in other words, how many of your banks are member banks of the Federal reserve system?

Mr. DECKER. Seventy.

Mr. FENN. Seventy out of ninety-eight?

Mr. DECKER. Yes, sir.

Mr. FENN. A large proportion?

Mr. DECKER. Naturally, we have up to date taken the larger banks and beter banks, either State or National.

Mr. FENN. I wanted to know if there were other banks that were important in that region, not in the groups.

Mr. STRONG. We will adjourn now until 2.30, at which time Mr. Campbell will be allowed to question the witness. If he is not here, Mr. Beedy will question the witness.

(Thereupon, at 1 o'clock, p. m., a recess was taken until 2.30 o'clock, p. m.)

AFTER RECESS

Pursuant to the taking of a recess, the committee resumed its hearing, Hon. James G. Strong presiding.

Mr. STRONG. The committee will come to order.

Mr. Decker, you may resume.

Mr. Campbell does not care to cross-examine and so, Mr. Beedy, you are next.

STATEMENT OF E. W. DECKER—Resumed

Mr. BEEDY. Mr. Decker, Mr. Luce brought up a matter that has seemed to be of quite general interest. There seems to be a fear here or a doubt as to whether we are on the way to a monopoly of credit in this country, and he asked you the question as to whether you thought it would be easier for Wall Street or New York interests to buy up your group, once you had it organized, than it would have been before, and your answer was that you thought it would be very much easier for New York interests or Chicago interests to go to 100 different banks separately and buy them than it would be to get control of the organized group.

You will remember that question and answer.

Mr. DECKER. Yes, sir.

Mr. BEEDY. And yet you have more than once said, unless my memory is at fault, that the group system was the natural evolution of the banking business, that it was possible to form such a system because individual banks would not sell out, that they wanted to hold their individuality or retain it, that they would join in a group where they would not sell.

How do you reconcile those two statements?

Mr. DECKER. Because they do not consider joining our group by an exchange of stock selling out.

Mr. BEEDY. You do not get the pertinence of my question. In reply to Mr. Luce's question, you said it would be easier for big interests in New York or Chicago to buy up individual banks than it would to get control of your group through a purchase of your holding company stock, and yet you say that group banking is preferable to branch banking as a matter of evolution because individual banks will not sell out, that public sentiment is against the branch-banking proposition and they will come into a group where they will not sell; yet your answer to his question was that it would be easier to buy individual banks than to take over the group.

Your two answers would seem to be somewhat inconsistent, and I wondered what your explanation is.

Mr. DECKER. I get your point. The explanation is this, that had there been no prospect of the formation of such a group as we have formed, those individual banks would have been tempted to sell out because they were discouraged; they could see no future in staying up there all alone, with no partners, and now that a plan has been devised whereby they can join the group which they believe is largely self sufficient and strong, they would not be so much inclined to sell their stock in the Northwest Bancorporation. When I said that they would not sell out to us for cash, I meant that, because they saw what it would mean; neither did we want them to sell for cash, but had they sold for cash, then they would not have been a part of the group in which that bank was going because we made no secret about our plans at all. Therefore they said to us:

As partners, yes, delighted to join; we do not want to ever sell our stock; we would rather own the stock than to own the cash.

Of course, they could turn around with the cash and buy stock if it were publicly offered.

Mr. BEEDY. In other words, your judgment, based on your experience of some 40 years as a banker, is that there is less danger of a big organized interest in a great financial center such as New York or Chicago taking over a group which has already been bought up and organized, necessitating but one transaction, than there would be of its going to work and picking up individual banks and attempting to build up a structure which would approximate a control or the ability to control credit in a given locality?

Mr. DECKER. Absolutely. In the first place, they realize now that what they have is worth more than they thought it was by that union. Their stock in the Northwest Bancorporation is going to be worth more than their stock in the local bank ever would have been worth, and therefore they are less willing to sell it. Second, the Northwest Bancorporation, with 126 directors of the best men in that part of the world, the most loyal men, is placing your fortunes in the hands of the most reliable, those who are able to keep it, who do not have to sell, and those who have at stake the greatest interest in that part of the country and therefore less apt to sell.

Mr. BEEDY. Now, with respect to this stock of the holding company, this $50 par-value stock, as bearing upon your financial structure, did you make the exchange or did these individual owners of bank stocks make their exchanges with the holding company on any basis which would result in a uniform return on their investment?

Mr. DECKER. Not entirely.

Mr. BEEDY. So that one bank stock which went into your group might have represented such a return on the investment that when it was exchanged for the holding company stock it might return 15 or 20 per cent, and again it might to another bank represent 8 per cent on their original investment?

Mr. DECKER. On their original investment?

Mr. BEEDY. Yes.

Mr. DECKER. On the stock in the local bank?

Mr. BEEDY. Let me make myself clear. They turned over what stock they had in their local bank. That stock might have been returning them 15 or 20 per cent on their original investment, and they turned it over for the stock in the holding company in such a way that, as against another bank, they are getting 25 per cent return while the other bank is only getting 8 per cent.

Mr. DECKER. As a matter of fact, most of them were not getting any return; they had used all of their profits to clean up the poor stuff, and a good many of those banks were not paying any dividends.

Mr. BEEDY. I understand that you have taken on very few weak banks, that all of your banks were strong banks.

Mr. DECKER. No. I beg your pardon.

Mr. BEEDY. The majority of them.

Mr. DECKER. Yes, but I gave you a number of instances where we cleaned up situations.

Mr. BEEDY. You said except in a few exceptional instances you had taken over strong banks.

Mr. DECKER. The larger number were strong banks.

Mr. BEEDY. You made it a point to take over strong banks that were money-makers?

Mr. DECKER. Yes, sir; but many of those strong banks had been using their profits to clean up their banks, and they had been declaring no dividends at all and there was no market for their stock, you might say.

Mr. BEEDY. But the majority of them had, and now have, surplus funds for loaning purposes?

Mr. DECKER. Yes, sir; they have great potential value for the future, if properly managed, in this group.

Mr. BEEDY. In fact, a great number had so much of a surplus of loanable funds that they have been investing them in good bonds because they could not find safe loans in other directions?

Mr. DECKER. Quite true.

Mr. BEEDY. On what basis or value was this holding company stock, reckoned in the transfer?

Mr. DECKER. We took into consideration the book or so-called liquidated value of the holding company stock, which was determined, of course, by the total book or liquidated value of the bank stocks which they had up to that time acquired, as against the book or liquidating value of the stock in the bank which was joining. We considered the earnings of the two as nearly as you could estimate them over three, four, and five years, the amount of capital invested, of course, in good paper, and the prospects, and if it was a bank that had excellent prospects, we considered its good will of more value.

Mr. BEEDY. My question went more directly to the point of the value reckoned for the holding company stock. Was it computed at $50 per share?

Mr. DECKER. When we sold stock to the public, we offered it, the first issue, at $50, but when we made the exchange we figured the par value at $50, but the book value of the holding company stock was determined by the book value of the stocks in banks which it owned.

Mr. BEEDY. And that largely paralleled the market quotations of the stock from time to time?

Mr. DECKER. No, we did not pay very much attention to the market value. They ran the stock up higher on the market than it should have gone, we thought.

Mr. BEEDY. It went up at one time to 90.

Mr. DECKER. Yes.

Mr. BEEDY. Did you ever trade in any of that at that value?

Mr. DECKER. No, sir. It really did not make any difference what price we put our stock at until you also determined the price of the other, because it was an exchange. We endeavored to make an exchange which was fair to the shareholders of the holding company who had already come in and to the shareholders of the bank under consideration.

Mr. BEEDY. Is the stock of the holding company on sale to the public to-day?

Mr. DECKER. Yes, sir.

Mr. BEEDY. What is the price of it to-day?

Mr. DECKER. Fifty-four.

Mr. BEEDY. Is any of the stock of the Northwest Bancorporation owned or controlled by New York or Chicago interests?

Mr. DECKER. So far as we know, not a dollar. There may be some scattering shares in the hands of investors.

Mr. BEEDY. But, as to the majority of it, you know where it is and you local men control it?

Mr. DECKER. Wait a minute—I must qualify that.

We offered last September to our shareholders a new issue of approximately 144,000 shares, which was 1 share for each 10 which they owned, at $72.50 per share. Before that stock was offered to the shareholders, I had it underwritten at $70 a share, because I thought it was good business.

Mr. BEEDY. Do I understand that you have increased your capitalization of your holding corporation?

Mr. DECKER. Three times.

Mr. BEEDY. Within a year and——

Mr. DECKER. And three months. That stock I had underwritten by, I think, 75 different houses who were invited to join in the underwriting at $70 a share.

Mr. BEEDY. Locally?

Mr. DECKER. No; scattered all over the country.

Mr. BEEDY. You did not have to go to New York for the underwriting?

Mr. DECKER. There were New York houses, Chicago houses—all bond and security houses had an opportunity to join, and I think that the most that any one house had was something like 3,000 shares. That was an underwriting, you understand.

Now, before the time arrived for our shareholders to take this stock and pay for it—and if they had done so, the underwriter would have received no stock——

Mr. BEEDY. Is the underwriter a Minneapolis concern?

Mr. DECKER. No; 75 different houses.

Mr. BEEDY. So that the purpose for which you organized this group, namely, to finance your own locality with your own capital, has failed in respect to your own organization?

Mr. DECKER. No, sir.

Mr. BEEDY. Why did you have to go to bond houses in New York or go outside of your own trade area?

Mr. DECKER. We did not have to.

Mr. BEEDY. Why did you?

Mr. DECKER. Well, I thought it was good business.

Mr. BEEDY. Then, it is not good business to organize for the purpose of financing your own business in your own locality with your own capital?

Mr. DECKER. Certainly, but we can not do it all.

Mr. BEEDY. Ah!

Mr. DECKER. We do not attempt for one minute to say that we are able to finance everything in our district.

Mr. BEEDY. I thought it was rather peculiar that you would not finance your own business in your own community, if that was one of the essential purposes of your organization.

Mr. DECKER. Please understand that this stock was put over and was offered to the shareholders at that time. I thought I saw trouble ahead in stock prices, so I had that stock underwritten, and we invited any bond house—whoever they were, whether in San Francisco or New York—to join in that underwriting, but none of them had more than 3,000 shares of the 75 houses.

Before the time arrived for our shareholders to buy that stock at 72½, and at the time it was offered it was selling on the market at 85, the collapse came on the stock market and our stock gradually went back to $50 a share, and in the meantime I called on the underwriters to pay for it at $70.

Mr. BEEDY. Now, the original capitalization of your holding company was what?

Mr. DECKER. Do you mean authorized?

Mr. BEEDY. Yes.

Mr. DECKER. Authorized capital stock was $75,000,000.

Mr. BEEDY. And that was all issued in stock?

Mr. DECKER. No; it was issued, you see, a little at a time, as we acquired——

Mr. BEEDY. What I mean is, there were no bonds involved in that set-up?

Mr. DECKER. No; only one kind of stock; no other securities of any description.

Mr. BEEDY. Of that original authorization of $75,000,000, you issued how many shares of the capital stock at $50 par value before you began to——

Mr. DECKER. Acquire banks?

Mr. BEEDY. No; before you began to change your set-up. You said that you had changed it three times?

Mr. DECKER. Our first issue of stock to the public for cash was $5,000,000 at $50 a share. That was greatly oversubscribed, and that was on the 1st of March, 1929. In August we sold 100,000 shares, or $5,000,000 worth more to the public for cash.

Mr. BEEDY. That was in August?

Mr. DECKER. In August. Then, as I saw the crisis coming pretty fast, and requiring some cash, as I thought, or at least as needing a large surplus in cash always on hand, I insisted on selling out 150,000 shares more.

Mr. BEEDY. For $7,500,000?

Mr. DECKER. At $72 per share. That was offered to the shareholders first. The original offer, by the way, was the only offering not made to the shareholders. That was foreclosed after the first offer, and the constitution of the company provides that all further issues of stock must be made to the shareholders, thereby preserving their rights.

Mr. BEEDY. Then the result of your first sale of stock was approximately $7,500,000?

Mr. DECKER. No; 150,000 shares at $70 was between $10,000,000 and $11,000,000.

Mr. BEEDY. And those are the three stock issues that you referred to in your original testimony?

Mr. DECKER. Yes.

Mr. BEEDY. So that as a result of your stock sales, you have about $21,000,000 worth of stock issued and outstanding?

Mr. DECKER. That is correct.

Mr. BEEDY. Now, how much of this stock, if any, went to the underwriters?

Mr. DECKER. Well, a very large per cent, practically all, you might say, of the last issue, because in the meantime the collapse had come and our stock among others had moved back to $50 a share.

Mr. BEEDY. So the underwriters themselves took these 150,000 shares?

Mr. DECKER. Right; at $70 a share.

Mr. BEEDY. And that stock is theoretically on the market at the present time?

Mr. DECKER. Yes. However, since then I have organized a private syndicate of individuals in our own town who have been willing to take over that stock from these underwriters at $50 a share. They have said that they did not care to sell it at that price, so a great deal of it they still have, but they will market it whenever, in their judgment, the market price warrants it, I suppose.

Mr. BEEDY. Now, in the course of your testimony, I notice that you admitted that branch banks can be run more economically than the individual banks under the group system.

Mr. DECKER. Yes.

Mr. BEEDY. I suppose that is generally conceded, and you further stated, if I remember correctly, that the majority of your banks were what you termed the larger banks that you had taken into the group, that one local syndicate, the name of which I forget——

Mr. DECKER. Union Investment Co.

Mr. BEEDY (continuing). Had organized and taken under its control some 25 small banks, that you took over the stock of the Union Investment Co. as such, and therefore those 25 small banks were in your system but subject to the immediate supervision of the existing investment trust company?

Mr. DECKER. Right.

Mr. BEEDY. And is it true as a matter of principle that you do not care to take in any more small banks at the present time?

Mr. DECKER. No; I would not say that.

Mr. BEEDY. You are not out seeking them?

Mr. DECKER. We do not care whether a bank is large or small. It is a question of whether it is needed in the community where it exists and whether it can be made profitable.

Mr. BEEDY. Your criterion would be rather the soundness of the institution and the local need for its maintenance?

Mr. DECKER. Yes, sir; and its ability to make money under our management or with our system.

Mr. BEEDY. Now, having no objection to the branch-banking system in your trade area as a competitor with the group-banking idea, in your opinion, would a branch-banking system, since it can be more economically administered, perhaps prove to be somewhat more advantageous to the small banker than the group system?

Mr. DECKER. More advantageous for the small banker?

Mr. BEEDY. For the small bank.

Mr. DECKER. If it was a branch, it would not be a bank.

Mr. BEEDY. Of course; if a central branch bank were organized and it took over 100 small banks, we will say, and operated them as branches——

Mr. DECKER. I get you.

Mr. BEEDY (continuing). They could probably be better operated in that kind of a system than they could under a group?

Mr. DECKER. Well, I think that would be the easiest competition we could have.

Mr. BEEDY. Somebody has got to take care of these small banks.

Mr. DECKER. Yes. Therefore my judgment is that the way to take care of the small banks would be this: Let us take the county seat, for argument's sake, which has a national bank or two or three of them; the best way would be to allow them to have branches in their own county or immediate terirtory, but in my judgment the natural evolution would be that the county bank with these branches will want to join a group; it will not want to stand alone.

Mr. BEEDY. Just as your investment trust is now in your group?

Mr. DECKER. That is it exactly.

Mr. BEEDY. While you do not pretend to predict what the next 10 or 15 years is going to bring about, you think that the natural tendency will be perhaps for the county bank or a bank within some limited area to take over and operate a few branches?

Mr. DECKER. Yes.

Mr. BEEDY. And that county bank, in turn, will be inclined to come into your group?

Mr. DECKER. Yes, sir.

Mr. BEEDY. That is the trend, as you see it?

Mr. DECKER. Yes, sir; that as against a bank in, say, Minneapolis, with branches in all these little towns. In my opinion the branch bank in Minneapolis would be a very poor competitor of ours, because in the larger towns, in these centers, we do not operate a branch but an independent bank, one that is popular at home and in which the local business men have an interest. For instance, if the people who own the National City Bank came into Minneapolis, after you passed a branch banking bill with your trade areas, and started branches over the same country where our member banks are located, they would immediately run counter to public opinion and get very little business.

Mr. Beedy. That is an interesting feature of your testimony. You counselled us against rushing into any action, which is perhaps wise; but you say that if we should now attempt to force upon the country a branch banking system, general in its application, that we would run counter to public sentiment.

What is public sentiment; what is your definition of it? What did you mean when you said that?

Mr. Decker. I perhaps can best explain it by taking an individual case. I think I referred this morning to the First National Bank of Minot, a bank with $4,000,000 or $5,000,000 in deposits. They would be unalterably opposed to becoming a branch of the Northwest National Bank at Minneapolis, which is a large unit in our bank corporation, because, they say, "Our bank has been here 30 or 40 years; we have our own board of directors, our own pride, and if we are to become a branch you will send a hired man up here to run it, and after he has been here 2 years you will send him off some other place, and we do not want it."

Mr. Beedy. Then, I understand you to refer to the public banking sentiment as represented by the banks.

Mr. Decker. Yes; but still further, the business sentiment is also exactly the same. One of my friends within the last two weeks attended a meeting of lumbermen from all over our part of the country, and he took the pains to ask them what their feeling was toward this group-banking movement as against branch banking, and they said that without any question they did not want the branch banks, they did not want the Canadian system, that they want their local banks. So I think the feeling is general among business men that way.

Mr. Beedy. Beyond the popular conception that you referred to, simply to the effect that certain communities do not want an outside fellow sent down to run a local bank, it is doubtful, is it not, whether the public as such understands the difference between branch banking and group banking, or the difference between branch banking and chain banking?

Mr. Decker. I think you would be surprised how well they do understand it around in our country.

Mr. Beedy. Members of this committee did not understand the difference until Mr. Pole had explained it to us.

Mr. Decker. You ask the farmer around Minot whether he would rather go into the Minot bank and do business with it as organized to-day or take his chances with a branch bank there operated by a hired man, and I warrant that nine times out of ten he will say, "Leave it as it is, because the manager of the branch will have to submit to headquarters practically all loans," and they know that the Minot bank still functions under the authority of its board of directors.

Do I make myself clear on that?

Mr. Beedy. Yes. Would you not be willing to make the statement that probably none of us yet know what the public sentiment, in the broad sense of that term, is as yet as to the advisability of having either a branch banking or a group banking system?

Mr. Decker. In sections where group banking has not been tried, probably yes, but in our section, where it has been in effect for over a year, I would say no. I think that is pretty clear.

Mr. Beedy. Of course, Mr. Decker, we are trying to keep in mind the little depositors, the individual depositors, and the man that sometimes want to buy an inexpensive home, and borrow $1,000 or $2,000. When we consider that class of people as opposed to the business interests and the banking interests, it is difficult for us here, from the testimony we have yet had, to find out what the sentiment of that class of people is, and I was wondering if you have anything along that line. Your statement is very interesting about the lumbermen, but have you taken any steps to find out what the small depositor is thinking about this trend toward concentration in the banking business?

Mr. Decker. It is a matter of education, and I have failed as yet to hear of one case of an individual who was a doubting Thomas or even an objector who had not changed his mind when he understood what group banking meant as against branch banking.

Now, naturally the man on the street does not know what he wants except that he wants to borrow $1,000. My experience as a banker there shows me that his chances of getting that $1,000, if he is worthy of it, are better, infinitely better, under our group system than it was before, because many of the unit banks were unable to accommodate him, and in my judgment his chances are infinitely better than under the branch-banking system, because I think that man's individual case will receive more attention and sympathy with the local bank and its local man than he would from a manager of a branch.

Mr. Beedy. What dividends does the stock of the holding company pay now?

Mr. Decker. $1.80 a share a year, or 45 cents a quarter.

Mr. Beedy. What is your theory of the increased capacity to pay dividends on this increased capitalization of the banks that you have grouped? You have no more banks than existed before, yet they are paying dividends on a vastly increased capitalization.

Mr. Decker. No, they are not paying any more dividends than a fair dividend.

Mr. Beedy. Let me make myself clear. When you took over some of these individual banks, you took into consideration their standing and reputation, and their good will, as we sometimes say, and those banks were not paying any dividends on good will; yet you in your holding company issued stock representing that good will, and the syndicate or group is now paying dividends on that stock which was paid for good will. I think it would be interesting for you to explain to us what your theory is, and there is a legitimate explanation, of course, as to the ability to pay dividends on that increased capitalization where you have no more banks than in the first place and no more money in the aggregate than was originally in your community.

Mr. Decker. Well, the answer to that is that the book or liquidating value of the Northwest Bancorporation stock to-day is $40 per share, independent of all good will. There are sufficient assets under any sort of reasonable management to earn at least double the present dividend requirements; in fact, our earnings last year were considerable more than double the dividend rate. The dividends are very small, and we are going to keep them small.

Mr. BEEDY. In other words, reckoning your stock in the holding company at $40 per share, you want the committee to understand that that is the parallel value of the existing banks just as you took them over, with assets?

Mr. DECKER. Yes, without any account of good will.

Mr. BEEDY. Now, irrespective of what this committee might do to meet the situation, the developments in the formation of groups and chains have come upon us so rapidly that unless we do lay ourselves wide open to the charge of precipitate action, it is probably true that whatever was going to be accomplished will have been accomplished. Would you think it advisable, if the evidence that we have had presented to us should convince the majority of us that there is a limit to the advantages of a concentration in the control of credit as there is in the concentration of capital for purely industrial purposes, for us to pass a law which would impose such burdens upon these groups and chains as they are now set up as to discourage further action along that line?

Mr. DECKER. No. I think you could better afford to let nature take its course until you are pretty clear in your mind what is best to be done, because it is perfectly apparent to me that banking is going to concentrate very much along the same lines as the public utilities have, and I doubt very much if any law can be passed that will work that will prevent it, because I think it is fundamental to-day by reason of the concentration of capital in business, in large companies, requiring large banking accommodations, that a large number of small banks in the United States can never again accommodate the business of the United States.

Mr. BEEDY. But you will agree that we do arrive at a point when in the concentration of banking facilities we have attained the highest economic efficiency?

Mr. DECKER. Yes, sir.

Mr. BEEDY. Then, of course, what that point is is what we are trying to find out. After we have gotten so far, it then becomes disadvantageous to go further with the group system or the branch banking system, does it not?

Mr. DECKER. Yes.

Mr. BEEDY. You have no suggestion, if any, as to what limitations should be imposed upon the concentration of banking capital, have you?

Mr. DECKER. I would be delighted if a way could be found to prevent the concentration of banking capital further than liberally prescribed trade areas, of which there might be a number—I do not know how many, but in our section, so sparsely settled, with relatively few diversified interests, that trade area would have to be very large in order to make it a workable unit as to size and influence in competing, if you please, with other large combination of capital in New York and Chicago. It if could be prevented and not go beyond certain districts, so far as we are concerned, it would suit us fine, but when you come to talk about Pittsburgh, Cleveland, Detroit, Boston, Philadelphia, New York, or Chicago, I confess that I would not undertake to say whether a man in New York should be prohibited from owning stock in a bank in Pittsburgh, or a holding company, even, but I am very clear that in our section a man on the street, a business man or a farmer, will be best served in a banking way by prescribing something like the trade area which I had mentioned, to be managed, supervised, controlled, and owned by people who live in that district and who make the wealth which goes into the banks. I confess that I do not know just how you are going to do that, however.

Mr. BEEDY. It is a difficult problem.

Mr. DECKER. Very.

Mr. BEEDY. Of course, it is fully as essential that we see to it that healthy competition in the banking business obtains.

Mr. DECKER. Absolutely. I think that is fundamental, but it is difficult.

Mr. BEEDY. You twice have used the phrase here that you want to let nature take its course, and I am not sure that you want to let that stand. Of course, the set-up of credit and the manipulation of credit come about by purely artificial methods; nature does not have anything to do with it, in the broad sense?

Mr. DECKER. What I meant by that was that the bankers are working out a solution of our present difficulties, and doing it cautiously, because the investor in bank stock is watching them closely, so that they do not go so far that they will become top-heavy.

Mr. BEEDY. But in dealing with banking we must make a very fundamental distinction between it and agriculture, over which the forces of nature have such a tremendous control.

Mr. DECKER. Very true.

Mr. BEEDY. While the banking business is a man-made business controlled by arbitrary rules which men imposed and which lawmaking bodies set up.

Mr. DECKER. Right.

Mr. BEEDY. That is the distinction that we are agreed upon. I understand, then, in a few words, that your testimony might be summed up as follows, that group banking within reasonable trade areas is the natural evolutionary development of the banking business to satisfy the needs of commerce and industry in general,

Mr. DECKER. Right.

Mr. BEEDY. And that, as a matter of fact, branch banking as such is the more economical system in administration, and that so far as you are concerned you are perfectly willing that this committee should pass some law authorizing branch banking within trade areas, that you do not want the committee to take any arbitrary steps to hurt you and the group which you have set up, that you are willing to take your chances in competition as a group banker with legally authorized branch banks?

Mr. DECKER. Yes, sir; provided it is confined to these trade areas.

Mr. BEEDY. Exactly. You are not advocating nation-wide branch banking?

Mr. DECKER. No, sir.

Mr. BEEDY. I think that is all.

Mr. DECKER. Having in mind all the time that my testimony refers more particularly to the conditions in the district in which we operate, rather than attempting a solution for the problem in any other sections with which I am not familiar.

Mr. BEEDY. Yes, indeed.

Mr. STRONG. Mr. Fort is next.

(Mr. Fort was not then present.)

Mr. STRONG. Mr. Goodwin.

Mr. GOODWIN. I just have a question or two, Mr. Decker, to ask you.

Speaking on the subject of the public mind in reference to branch banking, several States—yours and mine included—have passed laws prohibiting branch banking. Does that not give us a very fair picture of the public sentiment at least in those States that have passed laws prohibiting branch banking?

Mr. DECKER. I think the sentiment, Mr. Goodwin, is changing very rapidly. Two or three years ago that sentiment was general, but to-day, to say the least, they are in doubt, but if you refer to branch banking alone, I would say that the sentiment, outside of the centers, the cities, was still, so far as I have been able to learn, almost unanimously against branch banking, but the sentiment in those same rural districts regarding group banking is very different indeed.

Mr. GOODWIN. In your experience in the building up of the Northwest Bancorporation, have you found the people in the localities where you are now operating friendly to the suggestion of group banking?

Mr. DECKER. Very; exceedingly so, so much so that a great number of them want to buy stock in both Mr. Wakefield's group and our own. They feel it is sort of their own baby there in the northwest, but the baby is growing up, and they are proud of it.

Mr. GOODWIN. Is there any industry with proper security or collateral, or any individual, that can not now, within reasonable limits, be financed in the Twin Cities or in the area in which you operate?

Mr. DECKER. If you refer to long-time financing, I would not want to say that we would be able to finance all enterprises originating in our district. Take water power in the Rocky Mountains, natural gas developments, large industries—I would not want to say that we could unassisted finance, for a long time, all of the industries originating in our district, but if you refer to commercial banking——

Mr. GOODWIN. I mean the ordinary business interests that are local to the community within which your group operates.

Mr. DECKER. No trouble whatever for him to get all the money he is entitled to. In fact, my experience of 40 years in banking leads me to believe that there have been nine failures due to too much credit to one failure due to too tight credit, and a great majority of the people in the United States would go broke if you loaned them enough money.

Mr. GOODWIN. You just made the statement that the third issue of stock, the issue that was underwritten, is partially held by the underwriters now.

Mr. DECKER. Yes.

Mr. GOODWIN. Can you tell the committee approximately how much of that stock is so held?

Mr. DECKER. Oh, I should say possibly 100,000 shares out of 1,600,000.

Mr. GOODWIN. There will be no danger, then, that the owners of that stock would in any way control the operations of the company or dictate its management or in any way interfere with its operations?

Mr. DECKER. My judgment is there is no way in the world that any individual or set of individuals or holding company or corporation could obtain control of the Northwest Bancorporation without coming to headquarters and selling the idea to its directors and leading shareholders, which would mean that the whole district was willing to sell out. That is why I am so sure that they would never be willing to do it, which leads me to believe that we are now in a safer position in that respect that ever before.

Mr. GOODWIN. I think that is all.

Mr. STRONG. Mr. Letts.

Mr. LETTS. Mr. Decker, did you place in the record the names of the various banks in your group?

Mr. DECKER. Yes.

Mr. LETTS. That has been done.

Mr. DECKER. That will be done.

Mr. LETTS. And that contains a statement of the capital and surplus of each bank?

Mr. DECKER. Yes.

Mr. LETTS. You are a Delaware corporation, I understand?

Mr. DECKER. Yes, sir.

Mr. LETTS. What is the authorized capital?

Mr. DECKER. $300,000,000.

Mr. LETTS. Has any part of that capital been issued out of the treasury of the company for anything other than cash or the stocks of banks that you have taken into your group?

Mr. DECKER. Yes. In addition to the issuance of our stock for cash in its sale, or in exchange for bank stocks, there has been some stock issued for a cattle-loan company in western Montana, of which I spoke this morning, and two or three security companies which are capitalized independently in Minneapolis and, I think, Des Moines, Omaha, and Duluth.

Mr. LETTS. Has any part of this stock been issued for organization or promotion purposes?

Mr. DECKER. Not a dollar.

Mr. LETTS. What are the powers authorized by your corporate charter?

Mr. DECKER. They are very general.

Mr. LETTS. Are you authorized to issue insurance?

Mr. DECKER. I doubt it. I would have to examine the articles to be sure.

Mr. LETTS. Have you those articles of incorporation here?

Mr. DECKER. Yes.

Mr. LETTS. I think it would be a good thing to have them in the record.

(The articles of incorporation referred to are reproduced below.)

ARTICLES OF INCORPORATION AND BY-LAWS OF NORTHWEST BANCORPORATION, MINNEAPOLIS, MINN.

STATE OF MINNESOTA,
County of Hennepin, ss:

I, Grant W. Anderson, do hereby certify:

That I am the duly elected, qualified, and acting assistant secretary of Northwest Bancorporation, a corporation.

That the following is a true, complete, and correct copy of the Articles of Incorporation and By-laws of said corporation together with all amendments thereto; that the same was spread on the minute books of said corporation and now forms a part of the minutes and records of this corporation.

In witness whereof I have hereunto set my hand and the seal of this corporation this 11th day of April, 1930.

[SEAL.] GRANT W. ANDERSON.

First. The name of this corporation is Northwest Bancorporation.

Second. Its principal office in the State of Delaware is located at No. 7 West Tenth Street, in the city of Wilmington, county of New Castle. The name and address of its resident agent is the Corporation Trust Co. of America, No. 7 West Tenth Street, Wilmington, Del.

Third. The nature of the business, or objects or purposes to be transacted, promoted, or carried on, are:

To acquire by purchase, subscription, or otherwise, and to own and hold, for investment purposes, the capital stock, scrip or any voting trust certificates in respect of the shares of capital stock issued or created by any moneyed, financial, or investment corporation or association created and organized, or to be created and organized, under the laws of the United States of America or of any State or Territory thereof; and to issue in exchange therefor shares of the capital stock of this corporation; and while the holder or owner of any such shares of capital stock, scrip or voting trust certificates, to possess and exercise in respect thereof any and all rights, powers, and privileges of ownership, including the right to vote thereon;

To loan money to any aforesaid corporation or association, any of whose shares of capital stock, scrip, or voting trust certificates aforesaid shall be owned at the time of such loan by this corporation, and to do any and all lawful things designed to protect, preserve, improve, or enhance the value of any such shares, scrip, or voting trust certificates;

In addition to and not in limitation of any of the aforesaid powers, to invest temporarily any of its capital or surplus funds in bonds, mortgages, or evidences of indebtedness, and any other securities issued or created by any individual, copartnership or other corporation, joint-stock company or association, public or private, or of the Government of the United States of America, or of any foreign government, or of any State, Territory, municipality, or other political subdivision, or of any governmental agency;

To acquire, hold, sell, reissue, or cancel any shares of its own capital stock: *Provided, however*, That this corporation may not use any of its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of the capital of this corporation: *And provided further*, That the shares of its own capital stock belonging to this corporation shall not be voted, directly or indirectly;

To organize, incorporate, and reorganize subsidiary corporations for all lawful purposes;

To conduct all or any part of its operations and business without restriction or limit as to amount in the State of Delaware or in any or all other States, Territories, districts, colonies, and dependencies of the United States of America;

To have and to exercise any and all powers and privileges now or hereafter conferred by the laws of the State of Delaware upon corporations formed under the acts hereinafter referred to, or under any act amendatory thereof or supplemental thereto or substituted therefor;

The foregoing clauses shall be construed both as objects and powers; and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this corporation.

Fourth. The total authorized capital stock of this corporation is $75,000,000, divided into 1,500,000 shares, of the par value of $50 each.

If it seems desirable so to do, the board of directors may from time to time issue scrip for fractional shares of stock; such scrip shall not confer upon the holder any voting or other rights of a stockholder of the corporation but the corporation shall, from time to time, within such time as the board of directors may determine, issue one whole share of stock upon the surrender of scrip for fractional shares aggregating one whole share, properly indorsed, if in registered form. Amended October 10, 1929. (See in back.)

The holders of common stock of this corporation shall have their respective preemptive rights to subscribe for other shares of common stock, except as by law limited and except that, free of such preemptive right, the board of directors may (1) from time to time exchange unissued stock of the corporation or any stock of the corporation to be issued by reason of any increase of the authorized capital stock of the corporation for stock of financial, moneyed, or investment corporations and associations, and (2), prior to January 1, 1930, at such time or times and in such amount or amounts as said board of directors deems advisable, sell common capital stock not exceeding in the aggregate $5,000,000 par value.

Fifth. The amount of capital with which this corporation will commence business is $1,000, being 20 shares of the par value of $50 each.

Sixth. The names and places of residence of the subscribers to the capital stock and the number of shares subscribed for by each are as follows:

	Number of shares
A. V. Lane, Wilmington, Del	18
C. S. Peabbles, Wilmington, Del	1
L. E. Gray, Wilmington, Del	1

Seventh. This corporation is to have perpetual existence.

Eighth. The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

Ninth. The number of directors of the corporation shall be as specified in the by-laws, and such number may from time to time be increased or decreased in such manner as may be prescribed in the by-laws, provided the number of directors of the corporation shall not be less than three. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of a vacancy in the board of directors, a majority of the remaining members of the board may elect directors to fill such vacancy.

Directors shall be stockholders.

Tenth. In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the board of directors is expressly authorized:

To make, alter, amend, or repeal the by-laws of the corporation, except as otherwise provided in said by-laws.

To determine from time to time whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the corporation except as conferred by the laws of the State of Delaware, unless and until authorized so to do by resolution of the board of directors, or of the stockholders.

To set apart out of any funds of the corporation available for dividends a reserve or reserves for working capital or for any other lawful purpose, and also to abolish any such reserve in the same manner in which it was created.

If the by-laws so provide, to designate two or more of its number to constitute an executive committee, which committee shall for the time being, as provided in said resolution or in the by-laws of this corporation, have and exercise any or all of the powers of the board of directors in the management of the business and affairs of this corporation and have power to authorize the seal of this corporation to be affixed to all papers which may require it.

This corporation may in its by-laws confer powers upon its directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by the statute.

Both stockholders and directors shall have power, if the by-laws so provide, to hold their meetings and to have one or more offices within or without the State of Delaware and to keep the books of this corporation (subject to the provisions of the statutes) outside of the State of Delaware at such places as may be from time to time designated by the board of directors.

Eleventh. In the absence of fraud, no contract or transaction between this corporation and any other association or corporation shall be affected by the fact that any of the directors or officers of this corporation are interested in or are directors or officers of such other association or corporation, and any director or officer of this corporation individually may be a party to or may be interested in any such contract or transaction of this corporation; and no such contract or transaction of this corporation with any person or persons, firm, association, or corporation shall be affected by the fact that any director or officer of this corporation is a party to or interested in such contract or transaction or in any way connected with such person or persons, firm, association, or corporation; provided that such contract or other transaction shall be authorized or ratified by the vote of a majority of the directors of this corporation not so interested; and each and every person who may become a director or officer of this corporation is hereby relieved from any liability that might otherwise exist from thus contracting with this corporation for the benefit of himself or any person, firm, association, or corporation in which he may be in anywise interested.

Twelfth. This corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

We, the undersigned, being each of the original subscribers to the capital stock hereinbefore named, for the purpose of forming a corporation to do business both within and without the State of Delaware, and in pursuance of the general corporation law of the State of Delaware, being chapter 65 of the Revised Code of Delaware, and the acts amendatory thereof and supplemental thereto, do make and file this certificate, hereby declaring and certifying that the facts herein stated are true, and do respectively agree to take the number of shares of stock hereinbefore set forth, and accordingly have hereunto set our hands and seals this 24th day of January, A. D. 1929.

In presence of:

ALBERT L. MILLER.

A. V. LANE.
C. S. PEABBLES.
L. E. GRAY.

STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered, that on this 24th day of January, A. D. 1929, personally came before me, Albert L. Miller, a notary public for the State of Delaware, A. V. Lane, C. S. Peabbles, and L. E. Gray, parties to the foregoing certificate of incorporation, known to me personally to be such, and severally acknowledged the said certificate to be the act and deed of the signers respectively and that the facts therein stated are truly set forth.

Given under my hand and seal of office the day and year aforesaid.

ALBERT L. MILLER, *Notary Public.*

Recorded in the recorder's office at Wilmington in Certificate of Incorporation Record H, vol. 30, page 516, etc., the 24th day of January, A. D. 1929.

OFFICES

1. The principal office shall be in the city of Wilmington, county of New Castle, State of Delaware, and the name of the resident agent in charge thereof is the Corporation Trust Co. of America.

The corporation may also have an office in the city of Minneapolis, State of Minnesota, and also offices at such other places as the board of directors may from time to time appoint or the business of the corporation may require.

SEAL

2. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization, and the words "Corporate seal, Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

STOCKHOLDERS MEETINGS

3. All meetings of the stockholders shall be held at the office of the corporation in Minneapolis, Minn., or at such other office of the corporation as shall from time to time be designated by the board of directors.

4. An annual meeting of stockholders, after the year 1930, shall be held on the first Tuesday of January in each year, if not a legal holiday, and if a legal holiday, then on the next secular day following, at 11 o'clock a. m., when they shall elect by a plurality vote, by ballot, a board of directors, and transact such other business as may properly be brought before the meeting.

5. The holders of a majority of the stock issued and outstanding, and entitled to vote thereat, present in person, or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by law, by the certificate of incorporation or by these by-laws. If, however, such majority shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person, or by proxy, shall have power to

adjourn the meeting from time to time, with notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which the requisite amount of voting stock shall be represented, any business may be transacted which might have been transacted at the meeting as originally notified.

6. At each meeting of the stockholders, every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless said instrument provides for a longer period. Each stockholder shall have one vote for each share of stock having voting power, registered in his name on the books of the corporation, except that no share of stock shall be voted on at any election for directors which has been transferred on the books of the corporation within 20 days next preceding such election. The vote for directors, and, upon the demand of any stockholder, the vote upon any question before the meeting shall be by ballot. All elections shall be had and all questions decided by a plurality vote.

7. Written notice of the annual meeting shall be mailed to each stockholder entitled to vote thereat, at such address as appears on the stock book of the corporation, at least 30 days prior to the meeting.

8. A complete list of the stockholders entitled to vote at the ensuing election, arranged in alphabetical order, with the residence of each, and the number of voting shares held by each, shall be prepared by the secretary and filed in the office where the election is to be held, at least 10 days before every election, and shall at all times during the usual hours for business, and during the whole time of said election, be open to the examination of any stockholder.

9. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the president, and shall be called by the president or secretary, at the request in writing of a majority of the board of directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the corporation issued and outstanding, and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

10. Business transacted at all special meetings shall be confined to the objects stated in the call.

11. Written notice of a special meeting of stockholders, stating the time and place and object thereof, shall be mailed, postage prepaid, at least 10 days before such meeting, to each stockholder entitled to vote thereat at such address as appears on the books of the corporation.

DIRECTORS

12. The property and business of this corporation shall be managed by its board of directors, not less than 3 nor more than 45 in number. The number to constitute the first board shall be three. Directors must be stockholders. They shall be elected at the annual meeting of the stockholders, and each director shall be elected to serve until his successor shall be elected and shall qualify. The number to constitute the board of directors shall be determined by resolution from time to time increasing or decreasing such number, provided that the number of said directors shall not at any time be reduced to less than 3 nor increased to more than a total of 45. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of any vacancy or vacancies in the board of directors, a majority of the remaining members of the board may elect a director or directors to complete the board.

(As amended February 19, 1929)

13. The directors may hold their meetings and have one or more offices, and keep the books of the corporation, except the original or duplicate stock ledger, outside of Delaware, at the office of the corporation in the city of Minneapolis, Minn., or at such other places as they may from time to time determine.

14. In addition to the powers and authorities by these by-laws expressly conferred upon them, the board may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the certificate of incorporation or by these by-laws directed or required to be exercised or done by the stockholders.

COMMITTEES

15. The board of directors may, by resolution or resolutions passed by a majority of the whole board, designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions or in these by-laws, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the board of directors.

16. The committees shall keep regular minutes of their proceedings and report the same to the board when required.

COMPENSATION OF DIRECTORS

17. Directors, as such, shall not receive any stated salary for their services; but by resolution of the board a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the board, provided that nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

18. Members of special or standing committees may be allowed like compensation for attending committee meetings.

MEETINGS OF THE BOARD

19. The newly elected board may meet at such place and time as shall be fixed by the vote of the stockholders at the annual meeting for the purpose of organization or otherwise, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a majority of the whole board shall be present; or they may meet at such place and time as shall be fixed by the consent in writing of all the directors.

20. Regular meetings of the board may be held without notice at such time and place as shall from time to time be determined by the board.

21. Special meetings of the board may be called by the president on two days' notice to each director, either personally or by mail or by telegram; special meetings shall be called by the president or secretary in like manner and on like notice on the written request of two directors.

22. At all meetings of the board one-third of the total board of directors, but not less than two directors, if the board shall at such time have a total membership of less than six, shall be necessary and sufficient to constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation or by these by-laws.

OFFICERS

23. The officers of the corporation shall be chosen by the directors and shall be a president, such vice presidents as the board of directors may from time to time determine, and a secretary and a treasurer. The board of directors may also choose assistant secretaries and assistant treasurers. The secretary and treasurer may be the same person and any vice president may hold at the same time the office of secretary or treasurer.

24. The board of directors, at its first meeting after each annual meeting of stockholders, shall choose a president and such vice presidents as it may determine from its own members, and a secretary and a treasurer, who need not be members of the board.

25. The board may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

26. The salaries of all officers and agents of the corporation shall be fixed by the board of directors.

27. The officers of the corporation shall hold office until their successors are chosen and qualify in their stead. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the whole board of directors. If the office of any officer or officers becomes vacant for any reason, the vacancy shall be filled by the affirmative vote of a majority of the whole board of directors.

THE PRESIDENT

28. (*a*) The president shall be the chief executive officer of the corporation; he shall preside at all meetings of the stockholders and directors; he shall have general and active management of the business of the corporation, and shall see that all orders and resolutions of the board are carried into effect.

(*b*) He shall execute contracts requiring a seal under the seal of the corporation.

(*c*) He shall be ex officio a member of all standing committees, and shall have the general powers and duties of supervision and management usually vested in the office of president of a corporation.

VICE PRESIDENTS

29. Any vice president shall, in the absence or disability of the president, perform the duties and exercise the powers of the president, and shall perform such other duties as the board of directors shall prescribe.

THE SECRETARY AND ASSISTANT SECRETARIES

30. (*a*) The secretary shall attend all sessions of the board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or president, under whose supervision he shall be. He shall keep in safe custody the seal of the corporation, and when authorized by the board, affix the same to any instrument requiring it, and when so affixed it shall be attested by his signature or by the signature of the treasurer. He shall be sworn to the faithful discharge of his duty.

(*b*) The assistant secretaries in the order of their seniority shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform such other duties as the board of directors shall prescribe.

THE TREASURER AND ASSISTANT TREASURERS

31. (*a*) The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys, and other valuable effects, in the name and to the credit of the corporation in such depositories as may be designated by the board of directors.

(*b*) He shall disburse the funds of the corporation as may be ordered by the board, taking proper vouchers for such disbursements, and shall render to the president and directors, at the regular meetings of the board, or whenever they may require it, an account of all his transactions as treasurer and of the financial condition of the corporation.

(*c*) He shall give the corporation a bond if required by the board of directors, in a sum and with one or more sureties satisfactory to the board, for the faithful performance of the duties of his office, and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money, and other property of whatever kind in his possession or under his control belonging to the corporation.

(*d*) The assistant treasurers in the order of their seniority shall, in the absence or disability of the treasurer, perform the duties and exercise the powers of the treasurer, and shall perform such other duties as the board of directors shall prescribe.

VACANCIES

32. If the office of any director or directors becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, the remaining directors, though less than a quorum, shall choose a successor or successors, who shall hold office until the next annual election and until a successor or successors have been duly elected, unless sooner displaced.

DUTIES OF OFFICERS MAY BE DELEGATED

33. In case of the absence of any officer of the corporation, or for any other reason that the board may deem sufficient, the board may delegate, for the time being, the powers or duties, or any of them, of such officer, to any other officer, or to any director, provided a majority of the entire board concur therein.

CERTIFICATES OF STOCK

34. The certificates of stock of the corporation shall be numbered and shall be entered in the books of the corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the president or a vice president and the treasurer or an assistant treasurer, or the secretary or an assistant secretary.

CONTRACTS

35. SECTION 1. Except as may be otherwise expressly provided in these by-laws, no written instrument usually under seal, made by any person or persons in behalf of the company, or in its name, shall be binding upon it, unless the same, in each instance, shall have been made under authority of said board of directors or shall have been duly ratified by said board or shall have been made pursuant to power by it especially delegated.

SEC. 2. Except as may be otherwise expressly provided in these by-laws, all contracts or other written instruments made in the company's name shall be signed by the president and attested by the secretary, or shall be executed by such other persons and in such other manner as shall from time to time be directed by the board of directors by appropriate resolutions.

TRANSFERS OF STOCK

36. Transfers of stock shall be made on the books of the corporation only by the person named in the certificate or by attorney lawfully constituted in writing, and upon surrender of the certificate therefor.

CLOSING OF TRANSFER BOOKS

37. The board of directors shall have power to close the stock transfer books of the corporation for a period not exceeding 40 days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of right or the date when any change or conversion or exchange of capital stock shall go into effect: *Provided, however*, That in lieu of closing the stock transfer books as aforesaid, the board of directors may fix in advance a date not exceeding 40 days preceding the date of any meeting of stockholders or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case only such stockholders as shall be stockholders, of record on the date so fixed shall be entitled to such notice of, and to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

REGISTERED STOCKHOLDERS

38. The corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the laws of Delaware.

LOST CERTIFICATE

39. Any person claiming a certificate of stock to be lost or destroyed, shall make an affidavit or affirmation of that fact and advertise the same in such manner as the board of directors may require, and the board of directors may, in their discretion, require the owner of the lost or destroyed certificate, or his legal representative, to give the corporation a bond, in such sum as they may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss of any such certificate; a new certificate of the same tenor and for the same number of shares as the one alleged to be lost or destroyed, may be issued without requiring any bond when, in the judgment of the directors, it is proper so to do.

STOCK HELD IN OTHER CORPORATIONS

40. All capital stocks in other corporations owned by this corporation, except as hereinafter provided, shall be voted at the meetings, regular and/or special, of the stockholders of said other corporations by the president of this corporation, or, in his absence, by any vice president, and in the event, during such absence, of the presence of more than one vice president of this corporation, then by a majority of said vice presidents present at such stockholders' meeting, unless there shall have been executed and delivered, pursuant to a resolution of the board of directors of this corporation, to some other attorney specifically named in a proxy a power of attorney to represent this corporation at such stockholders' meeting for the purposes in said power of attorney specified, and in the event that no such proxy shall have been authorized by the board of directors with reference to any stock owned by this corporation, and as often as such may be the case, the president and secretary of this corporation are hereby authorized to execute in the name and under the seal of this corporation proxies in such form as may be required by the corporation whose stock is to be voted thereunder, naming as the attorney authorized to act by said proxy such individual or individuals as to said president and secretary shall seem advisable, and the attorney or attorneys so named in said proxy shall, until the revocation or expiration thereof, vote said stock at such stockholders meetings only in the event that neither the president nor any vice president of this corporation shall be present thereat.

41. In the event that this corporation shall own in excess of 50 per cent of the capital stock of any financial or money corporation or association and if, in the acquisition of such stock this corporation shall have agreed that as to the voting of such stock for the election of directors this by-law or an agreement substantially in accord therewith shall be binding on the corporation, then and in each such event the stock so acquired shall, at all meetings for the election of a board of directors of any such association or corporation, be voted in favor of the election to such board of a sufficient number of residents of the city where the principal office of such corporation or association is located so that, if the candidates so voted for shall be elected, at least 75 per cent of the members of said board of directors shall be residents of said city. This section 41 of these by-laws shall be amended only upon the affirmative vote of 80 per cent in amount of the common stock of this corporation outstanding at the time of such amendment or by the board of directors after receipt of the written consent of the holders of at least 80 per cent of the common stock of this corporation.

INSPECTION OF BOOKS

42. The directors shall determine from time to time whether, and, if allowed, when and under what conditions and regulations the accounts and books of the corporation (except such as may by statute be specifically open to inspection) or any of them shall be open to the inspection of the stock-

holders, and the stockholders' rights in this respect are and shall be restricted and limited accordingly.

CHECKS

43. All checks or demands for money and notes of the corporation shall be signed by such officer or officers as the board of directors may from time to time designate.

FISCAL YEAR

44. The fiscal year shall begin the 1st day of January in each year.

DIVIDENDS

45. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of the capital stock.

Before payment of any dividends there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interests of the corporation.

DIRECTORS' ANNUAL STATEMENT

46. The board of directors shall pesent at each annual meeting, and when called for by vote of the stockholders at any special meeting of the stockholders, a full and clear statement of the business and condition of the corporation.

NOTICES

47. Whenever under the provisions of these by-laws notice is required to be given to any director, officer or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, by depositing the same in the post office or letter box, in a post-paid sealed wrapper, addressed to such stockholder, officer or director at such address as appears on the books of the corporation, or, in default of other address, to such director, officer, or stockholder at the general post office in the city of Wilmington, Del., and such notice shall be deemed to be given at the time when the same shall be thus mailed.

Any stockholder, director, or officer may waive any notice required to be given under these by-laws.

AMENDMENTS

48. These by-laws, except as hereinabove otherwise provided, may be altered or amended by the affirmative vote of a majority of the stock issued and outstanding and entitled to vote thereat, at any regular or special meeting of the stockholders if notice of the proposed alteration or amendment be contained in the notice of the meeting, or, except as hereinbefore and in the certificate of incorporation of this corporation otherwise provided, by the affirmative vote of a majority of the board of directors: *Provided, however*, That no change of the time or place for the election of directors shall be made within 60 days next before the day on which such election is to be held, and that in case of any change of such time or place notice thereof shall be given to each stockholder in person or by letter mailed to his last known post-office address, at least 20 days before the election is held.

Article 4 of the articles of association of Northwest Bancorporation as amended October 10, 1929:

"4. The total authorized capital stock of this corporation is $300,000,000, divided into 6,000,000 shares of the par value of $50 each.

"If it seems desirable so to do, the board of directors may from time to time issue scrip for fractional shares of stock, such scrip shall not confer upon the holder any voting or other rights of a stockholder of the corporation but the corporation shall from time to time, within such time as the board of directors may determine, issue one whole share of stock upon the surrender of scrip for fractional shares aggregating one whole share, properly indorsed if in registered form.

"The holders of common stock of this corporation shall have their respective preemptive rights to subscribe for other shares of common stock, except as by law limited and except that, free of such preemptive right, the board of directors may (1) from time to time exchange unissued stock of the corporation or any stock of the corporation to be issued by reason of any increase of the authorized capital stock of the corporation for stock of financial, moneyed, or investment corporations and associations, and (2) prior to January 1, 1930, at such time or times and in such amount or amounts as said board of directors deems advisable, sell common capital stock not exceeding in the aggregate $5,000,000 par value, and (3) where individual persons for the purpose of enabling them to qualify as directors of any bank, in which this corporation shall have acquired shares of stock in such bank, as and when the stockholders in this corporation may become entitled to subscribe for additional shares of stock in this corporation, at the same time there may be sold, by the issuance of subscription rights or otherwise, to each of said persons so owning and holding shares of stock in any such bank such number of shares of stock of this corporation and at such prices as the board of directors of this corporation shall determine to be adequate to compensate such person or persons for any loss of subscription rights by such person or persons by reason of the fact that he has retained or acquired shares of stock in such bank."

Section 12 of the by-laws of Northwest Bancorporation as amended January 7, 1930:

"SEC. 12. The property and business of this corporation shall be managed by its board of directors, not less than three in number. Directors shall be elected at the annual meeting of the stockholders, except as hereinafter provided, and each director shall be elected to serve until his successor shall be elected and shall qualify. The number to constitute the board of directors shall be determined from time to time by resolution of the stockholders or of the board itself, increasing or decreasing such number, provided that the number of said directors shall not at any time be reduced to less than three. In case of any increase in the number of directors, occurring between the dates of the annual meetings of the stockholders, the additional directors may be elected by a majority vote of a quorum of the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualify. In case of any vacancy or vacancies in the board of directors, a director or directors may be elected to complete the board by a majority vote of a quorum of the board of directors, or in the event that the remaining directors are less than a quorum, then by a majority of the remaining directors."

Mr. LETTS. Have you engaged in any business up to this time other than the banking business and the handling of securities?

Mr. DECKER. No; and its allied industries, like this cattle loan company.

Mr. LETTS. This morning you said something about a large amount of money getting away from your district, and as illustrating that you said something about insurance. Is it a part of your plan that you will finance an insurance company, for instance?

Mr. DECKER. No, sir.

Mr. LETTS. Life, accident, fire, or otherwise?

Mr. DECKER. No, sir. We buy our insurance, and we have no idea of writing it ourselves or financing other insurance companies. My impression is that our articles do not permit us to go into the insurance business.

Mr. LETTS. That was the purpose of my first question.

Mr. DECKER. I am quite positive about that.

Mr. LETTS. The reason I asked that question is that in considering another group we found that they claimed to be able to divert a large amount of insurance to their own company through their banking policies and facilities.

Mr. DECKER. We buy our insurance on the open market.

Mr. LETTS. Is it your intention to handle real-estate mortgages?

Mr. DECKER. The holding company?

Mr. LETTS. Yes.

Mr. DECKER. No, sir.

Mr. LETTS. Is it your intention to operate real-estate agencies for the sale of lands?

Mr. DECKER. No, sir.

Mr. LETTS. Then I take it it is your purpose to stick to the banking business, other than the handling of securities?

Mr. DECKER. Yes, sir.

Mr. LETTS. And the handling of securities is done by security companies organized for that purpose?

Mr. DECKER. Right.

Mr. LETTS. This morning you made some mention of the matter of taxation, and I assumed you were about to tell us how under your plan the banks here and there bore their proper proportion of the tax burden of the various States, but you did not develop that. Can you tell us a little further just what you were then about to say?

Mr. DECKER. Yes. We have in our bank corporation a certain number of banks in North Dakota, we will say, both State and national. Those banks pay a personal-property tax on every share of stock in existence into the treasury of the State of North Dakota. If those banks were dissolved and we established branches in their place, the State of North Dakota would receive no tax; the tax would be paid entirely in the State of Minnesota where all the stock was in the parent bank.

Mr. LETTS. In other words, you say that under your plan the present method of taxing in the various States will continue to prevail, whereas it would not under the branch system?

Mr. DECKER. That is right.

Mr. LETTS. What is the par value of your stock?

Mr. DECKER. $50 a share.

Mr. LETTS. Has any of that stock been issued from the treasury for less than that?

Mr. DECKER. No, sir.

Mr. LETTS. I think that is all.

Mr. BEEDY. There was one misconception or misunderstanding in figures that I want to clear up.

When Judge Letts just now asked you what your capitalization was, you said "$300,000,000."

Mr. DECKER. Authorized.

Mr. BEEDY. What was the figure of $750,000,000 that you gave me?

Mr. DECKER. $75,000,000?

Mr. BEEDY. I guess that is it.

Mr. DECKER. $75,000,000 was the first authorization. That was later increased.

Mr. STRONG. Mr. Seiberling.

Mr. SEIBERLING. This organization, the holding company was promoted by a large bank, I take it, with which you were originally connected in Minneapolis?

Mr. DECKER. They were the prime movers; yes, sir.

Mr. SEIBERLING. What was the name of that bank?

Mr. DECKER. Northwestern National Bank.

Mr. SEIBERLING. And that was the first unit taken over, I take it, the stock in that bank?

Mr. DECKER. No; there were three or four banks taken over simultaneously.

Mr. SEIBERLING. And who fixed the value of the stock of the banks you took over in the first instance or first transaction?

Mr. DECKER. By mutual agreement between the four banks who joined simultaneously.

Mr. SEIBERLING. These banks were also interested in the holding company?

Mr. DECKER. They became interested.

Mr. SEIBERLING. They promoted the holding company?

Mr. DECKER. Yes; just as much as we did.

Mr. SEIBERLING. So that in the first instance when you took over these banks, you had the same parties in interest on both sides of the transaction?

Mr. DECKER. Mutual agreement.

Mr. SEIBERLING. And how did you arrive at the value of the stocks in the banks you first took over?

Mr. DECKER. Well, largely in three ways. First, book or liquidated value—in other words, invested capital; average earnings over a period of years; and prospects for future earnings.

Mr. SEIBERLING. And how did you fix the value of the holding company stock which you issued? Was that fixed at $50.

Mr. DECKER. That was fixed at $50.

Mr. SEIBERLING. And you arrived at the value of the banks you first took over and issued stock in accordance with that valuation?

Mr. DECKER. That is right.

Mr. SEIBERLING. Then you went out and acquired other banks?

Mr. DECKER. Yes.

Mr. SEIBERLING. How did you determine the value of those banks when you took them over?

Mr. DECKER. Well, we attempted to be perfectly fair with both parties to the transaction.

Mr. SEIBERLING. I do not question that.

Mr. DECKER. Along the same lines; the book value, earnings, and prospects, and volume of deposits, of course, which entered into the question of earnings.

Mr. SEIBERLING. Then you figured the book value of your holding company stock when you issued it to them?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. So that the cheaper you could buy these other bank stocks, the higher, of course, your book value of your holding company would go?

Mr. DECKER. Yes; if we acquired them for cash.

Mr. SEIBERLING. Have you written up any of these stocks on your holding company's books?

Mr. DECKER. No, sir; we wrote some of them down.

Mr. SEIBERLING. I see that under your charter you have the right to organize, incorporate, and reorganize subsidiary corporations for all lawful purposes, so that you could authorize an insurance company, an abstract company or, in fact, any kind of a company or subsidiary you would find to your advantage.

Mr. DECKER. I did not know it; it has never been suggested or discussed.

Mr. SEIBERLING. Why did you not take over these small banks that you put into the subsidiary of your holding company?

Mr. DECKER. Why didn't we take them direct?

Mr. SEIBERLING. Yes.

Mr. DECKER. Because we were satisfied they could be better looked after by the Union Investment Co., because those small banks owned by the Union Investment Co. are not organized locally with directors and managers in quite the same manner as the other banks are, and we thought the Union Investment Co., which had built up an organization for 25 or 30 years that they have been in existence, had built up an organization better fitted to handle those small banks.

Mr. SEIBERLING. Are you sure that that is the only reason for adopting that plan?

Mr. DECKER. You mean, of taking those in through the Union Investment Co.?

Mr. SEIBERLING. Yes. Your overhead would have been much less if you had taken them into your holding company, would it not?

Mr. DECKER. No; because we would have to increase the overhead expense of the holding company in order to take care of these little banks.

Mr. SEIBERLING. When you approach a bank, who determines whether it shall go into your subsidiary or holding company?

Mr. DECKER. We have never taken any in in any other way. We did not buy these small banks; we traded our stock for the stock in the Union Investment Co.

Mr. SEIBERLING. And some other person organized that company?

Mr. DECKER. Oh, yes.

Mr. SEIBERLING. And you had nothing to do with it in the beginning?

Mr. DECKER. Not at all. It had been in existence 25 years.

Mr. SEIBERLING. You just bought that; I did not understand that. I was somewhat interested in what you said about——

Mr. DECKER. If you will pardon me, I might add that we have not taken in any more independent banks and put them into that corporation, if that answers your question.

Mr. SIBERLING. You have not taken in any additional banks?

Mr. DECKER. No.

Mr. SEIBERLING. If I understand your testimony correctly, you think that chain banking is preferable to branch banking because of the local——

Mr. DECKER. Group banking; don't call it chain banking. [Laughter.]

Mr. SEIBERLING (continuing). Because of the local interest which you maintain in connection with the unit bank?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And you think the customer likes that plan of banking better than branch banking?

Mr. DECKER. Yes, sir.

Mr. SIBERLING. And what is your reason for that?

Mr. DECKER. Well, I thought I had covered that.

The customer likes it better because, he thinks, he will get a better hearing, a more sympathetic hearing, in the local bank with its local board of directors and local manager and local pride than he would from the manager of a branch.

Mr. SEIBERLING. But the manager would be in the main branch, in the large city.

Mr. DECKER. There would be a local manager in that city.

Mr. SEIBERLING. Yes, but the real manager would be in the large center.

Mr. DECKER. Yes, the situation would be much less favorable than it would be under group banking.

Mr. SEIBERLING. Do you think the customer might also be afraid that he might not get the same terms in connection with the rate of interest for his loans?

Mr. DECKER. Yes, I think he would, because the man who determines the rate of interest in a group bank is the local man, who lives there. He has his home there, and his directors all live there, and they all pay taxes there. Probably everything that they own in the world is there.

Mr. SEIBERLING. But you did not give that reason a while ago and I wanted to bring that out, that where you deal with your home people, you have the human interest.

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And you get consideration that you do not get when you are dealing with somebody a long distance away.

So you think you overcome that by your plan here?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And it does not make much difference if they do shift the money in your district, because the stockholders of your holding company are scattered all over your district and they are interested in maintaining every unit bank they own?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And so you do have that local interest?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. Just the same as though they owned the bank.

Mr. DECKER. Even larger than it was before.

Mr. SEIBERLING. More stockholders?

Mr. DECKER. Yes, in number and the amount.

Mr. SEIBERLING. How do you figure you are going to increase your rate of dividend in the holding company?

Mr. DECKER. You mean over what we are paying now?

Mr. SEIBERLING. You said you were going to increase it greatly.

Mr. DECKER. I said we were not likely to increase it.

Mr. SEIBERLING. No; you said you were going to double your earnings.

Mr. DECKER. No; I said the earnings were now double the amount of the dividends which we are paying.

Mr. SEIBERLING. But you are going to greatly increase those earnings?

Mr. DECKER. Well, we hope to.

Mr. SEIBERLING. How are you going to do that?

Mr. DECKER. In the first place, by economy. We will save $75,000 a year on surety bonds alone and get a better coverage, in some instances ten times over what it has been. We will save considerable money in buying adding machines and standard equipment which are not made locally. We always say to our local bank, "Patronize home industries." Then we say to them, "If you are buying machines not made at home, we do not ask you to buy them from us, but if you wish to join the rest of the crowd and save money, you are permitted to," and without exception they are delighted to have that opportunity.

Mr. SEIBERLING. Do all of your banks pay the same interest on deposits?

Mr. DECKER. No, sir.

Mr. SEIBERLING. Do you have banks that pay no interest on deposits?

Mr. DECKER. There are plenty of banks that pay no interest on an open checking account.

Mr. SEIBERLING. Or on savings accounts?

Mr. DECKER. We have no banks that pay no interest on savings accounts.

Mr. SEIBERLING. But you have banks that pay different rates?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. And you charge different rates for loans also?

Mr. DECKER. Yes, sir.

Mr. SEIBERLING. Why is it that you do not pay the same rate on savings deposits in one bank as you do in another?

Mr. DECKER. For a number of reasons.

Mr. SEIBERLING. Give us some.

Mr. DECKER. Conditions of the locality, competition of other banks in the locality, custom—we would hesitate to disturb a policy which a bank had been operating successfully under.

Mr. SEIBERLING. You would not hesitate to increase the rate of interest, would you? If a bank had been paying 3 per cent on deposits, you would not hesitate to increase it to 4 per cent, would you?

Mr. DECKER. Yes; certainly we would.

Mr. SEIBERLING. Why?

Mr. DECKER. Because it would be a question whether we could afford to do it.

Mr. SEIBERLING. But you do pay it in some sections?

Mr. DECKER. But these banks, please remember, are still unit banks, and the local management is responsible for the results, which include the earnings, and why should Fargo be willing to advance their rate to 4 per cent because La Crosse was paying 4, if their earnings did not warrant it?

Mr. SEIBERLING. What is the difference in the various banks? What is the lowest rate that you pay, and the highest?

Mr. DECKER. I think I would say that, in a general way, 3 per cent is about the lowest and 4 per cent is about the highest.

Mr. SEIBERLING. Where do you pay the 3 per cent?

Mr. DECKER. Minneapolis.

Mr. SEIBERLING. And where do you pay the 4 per cent?

Mr. DECKER. In the smaller towns.

Mr. BEEDY. You are talking about savings accounts?

Mr. SEIBERLING. Savings accounts; yes.

Mr. DECKER. Or certificates of deposit.

Mr. SEIBERLING. And does the same rate obtain in all country districts?

Mr. DECKER. No.

Mr. SEIBERLING. What is the difference in the country districts?

Mr. DECKER. Well, there may be a case in which for years they have been paying 4 per cent, and that is because they could not agree among themselves, even though they knew it was too high.

Then, here is another district where the banks have been cooperating and working together better, and they have reduced the rate, and for years the State departments of banking have urged that they reduce the interest that they are paying on deposits, for they had been getting to the point where the banks were not earning money on savings, and Mr. Wakefield says that there is now a law in the State of Minnesota prohibiting the payment of over 4 per cent on savings.

Mr. SEIBERLING. Is there a law fixing the amount you can charge for loans, too?

Mr. DECKER. No, sir; except usury. The usury law is 8 per cent.

Mr. SEIBERLING. Well, the chief interest that the citizen who does not own bank stock has is to get as much for his deposits as he can, and to borrow his money as cleaply as he can.

Mr. DECKER. Right.

Mr. SEIBERLING. And then, in addition to that, there is also the safety of the deposit. Those are really the three only interests that the public in general have, that part of the public who are not stock owners of banks. Is that not correct?

Mr. DECKER. Yes; perhaps so, but remember that we are in competition with the Government on savings; we are in competition with the bond man on the sale of securities; we have plenty of competition when we attempt to induce Jim Smith to put his money in the bank at 3 or 4 per cent.

Mr. SEIBERLING. But if you can eliminate that competition, you could lower the rate you pay on savings deposits, could you not?

Mr. DECKER. Not as long as the Government savings banks are there and the public can buy Government and other bonds; no. We have got to meet the open market; they do not have to deposit their money in the local bank. They have learned a lot better than that, that they can buy Government bonds, or buy stocks, and they have learned that they can put their money in the postal savings banks.

Mr. SEIBERLING. I have heard that stated here a good many times, but are there not millions of people in the United States that do not know anything about the things you are talking about? Is it not true that the only thing they know is the bank?

Mr. DECKER. Oh, I think they are wiser than you realize, Mr. Seiberling.

Mr. SEIBERLING. I do not think so.

Mr. DECKER. They have got radios and newspapers, and they know a lot more than they did a few years ago.

Mr. SEIBERLING. But when it comes to money, the only person they have dealt with is the banker.

Mr. DECKER. That has been the inclination in years past, but now they have learned so much that they are seeking other avenues of investment for their funds.

Mr. SEIBERLING. Now, you stated awhile ago that a great deal of the money was carried in stockings, and so forth. Why does not the postal savings draw that money out?

Mr. DECKER. It has. In the State of Montana, in 1919, the per capita investment in postal savings banks was $2.66. Ten years later it was $11.26; and Montana moved into first place of all the States in the Union in investments in postal savings.

That is the answer; that money has gone out of circulation so far as Montana is concerned, whereas it should be in deposits in Montana for the benefit of her own industries, and those industries are deprived of that because they did not believe that they had a sound banking system which made it safe for them to leave their money in the bank.

Wyoming moved into second place.

Take South Dakota; that is a flagrant case. In 1919 the per capita investment of the inhabitants of South Dakota was 7 cents in postal savings. Ten years later it is $6.25. So, what good do postal savings do to the State of South Dakota?

Mr. SEIBERLING. Is not the money deposited in the Federal reserve centers of the State?

Mr. DECKER. You have to buy Government bonds and put them up as collateral.

I have here a whole list of all the States in the Union and the increases in postal savings. It has been a tremendous competitor, and you could not blame the people.

Mr. WINGO. I think it would be well to have that statement go in the record at this point.

Mr. STRONG. Without objection, it is so ordered.

(There was no objection, and the statement referred to is printed below.)

Per capita postal savings

	1929		1919	
	Amount	Position	Amount	Position
Montana	$11.26	1	$2.66	7
Wyoming	7.67	2	1.90	14
South Dakota	6.25	3	.07	40
Florida	5.59	4	.76	25
Nevada	5.04	5	6.57	1
Idaho	4.78	6	1.03	22
Washington	4.31	7	3.81	3
Oregon	4.21	8	3.41	4
New Mexico	3.88	9	.29	31
Colorado	3.53	10	2.06	12
Iowa	3.39	11	.21	35a
North Dakota	3.36	12	.04	43
Minnesota	3.02	13	1.16	20a
Arizona	2.89	14	1.40	19
New York	2.43	15	5.62	2
Oklahoma	2.31	16	.14	37
Kansas	1.94	17	.43	27
Missouri	1.49	18	.85	23
Massachusetts	1.44	19	1.66	17
Alabama	1.27	20	.21	35b
Utah	1.16	21	2.92	6
Nebraska	.95	22	.36	30
Illinois	.89	23	1.70	16
Pennsylvania	.86	24	2.37	8
South Carolina	.81	25	.03	44
Texas	.77	26	.17	36
California	.68	27	1.13	21a
Connecticut	.67	28	3.17	5
District of Columbia	.66	29	1.16	20b
New Hampshire	.65	30	1.48	18
Georgia	.62	31	.06	41
Rhode Island	.59	32	2.29	9

Per capita postal savings—Continued

	1929		1919	
	Amount	Position	Amount	Position
New Jersey	.55	33	2.27	10
Wisconsin	.49	34	1.13	21b
West Virginia	.49	35	.41	28
Indiana	.47	36	.84	24
Michigan	.45	37	2.09	11
Ohio	.43	38	1.72	15
Delaware	.40	39	1.95	13
Arkansas	.34	40	.09	39
Tennessee	.24	41	.11	38
Louisiana	.18	42	.21	35c
North Carolina	.18	43	.01	45
Vermont	.15	44	.25	34
Maine	.14	45	.53	26
Kentucky	.09	46	.26	33
Virginia	.09	47	.39	29
Maryland	.07	48	.28	32
Mississippi	.06	49	.05	42

Mr. SEIBERLING. Do you mean to tell me that in controlling this large group of banks your unit managers do not constantly confer with you as to rates of interest to charge on loans and things of that kind?

Mr. DECKER. Never have we discussed it. It would be true on large loans; if you had a concern in Des Moines, where we have a bank, that was a large borrower, or in Duluth, where they have large grain and elevator accounts, we would and have conferred on rates for the last 25 or 30 years, but on the local loans of these banks we pay no attention to the rate they charge. What we are interested in are two things, the development of the country around that bank where we have a large financial interest and the showing on the part of the bank of reasonable profits above losses.

Mr. SEIBERLING. Do you think the same institution which acts as trustee should also engage in the business of underwriting securities?

Mr. DECKER. No, sir; absolutely not.

Mr. SEIBERLING. Should the holding company?

Mr. DECKER. No, sir; absolutely not.

Mr. SEIBERLING. How many subsidiaries have you in this holding company?

Mr. DECKER. One hundred and ten.

Mr. SEIBERLING. What are these investment companies?

Mr. DECKER. They are companies in four or five centers who handle securities, underwriting sales of securities, bonds, and, in some instances, stock.

Mr. SEIBERLING. And they own stocks, do they?

Mr. DECKER. Own them?

Mr. SEIBERLING. Yes.

Mr. DECKER. No, sir.

Mr. SEIBERLING. Have you any subsidiaries that own stocks?

Mr. DECKER. They might take up a stock they had underwritten until they had sold it, but they would be more cautious of the stocks. Of course, there is no halo around bonds. Many people would rather have stock in some company than bonds in others.

Mr. SEIBERLING. Then, you have, counting all of your subsidiaries, one hundred and some corporations?

Mr. DECKER. Right.

Mr. SEIBERLING. I think that is all.

Mr. LETTS. I intended to ask one question I overlooked.

Mr. STRONG. All right.

Mr. LETTS. I wanted to inquire whether or not you have been approached by any other large interest, such as the Transamerica Corporation or this new one, the Manhattan Corporation, or whatever its name is, to sell out?

Mr. DECKER. Not directly. We have been approached, not knowing whom the parties represented, and we told them that we were not interested.

Mr. LETTS. I asked that because I have an idea that there will be a tendency to spread across the country.

Mr. DECKER. Very naturally. It indicates we have something worth having.

Mr. STRONG. Mrs. Pratt, you are next.

Mrs. PRATT. Most of the questions that I had in mind have been covered by others.

I would like to ask Mr. Decker a question, and perhaps I will be excused if I make a statement first.

I judge from your testimony here that you feel, from the way it has worked out in your district, that the solution to the banking troubles of this country is in group banking?

Mr. DECKER. Yes.

Mrs. PRATT. It has been stated here that the purpose of any proposed legislation would be to give to the smaller districts, where there have been bank failures due to frozen credits, and so on, a more fundamentally sound banking system. I think you said that you felt that those districts would be perhaps better taken care of by a branch banking system.

Mr. DECKER. The very small ones. I would draw the line here in a town so small or inconsequential that it could not support a unit bank, no matter who owned the stock, whether it was in our group or out, and make it profitable, and yet a town large enough so that it was entitled to banking facilities. In such a town I see no other solution than what you might call a branch or a teller's window.

I can illustrate that possibly by what took place in Jamestown, N. Dak. There were four or five banks in Jamestown, and all of them were in more or less trouble. They had within a radius of 15 or 20 miles, 15 or 20 small banks, many of which were owned by the same people who owned the bank in Jamestown. The whole situation was bad, and my honest opinion is that the whole thing would have collapsed without any doubt.

The First Bank Stock Corporation, of which Mr. Wakefield is president, and ourselves, at earnest solicitation, went out there and consolidated the Jamestown banks into two good banks and cleaned them up, and then these banks within a radius of 15 or 20 miles which they had owned and which they said never could make any money, of their own accord dissolved and told their customers to ride into Jamestown to do their banking.

Now, that could not be done in every case, but it was done in that case. If there was a town out from Jamestown so far that it would really be a great inconvenience to force them to go into Jamestown every time they wanted to make a deposit or do any banking business, one of these banks in Jamestown, if permitted to do so legally, could establish a branch or even have a teller's window.

We have had them come to us and ask us to let them make deposits in the drug stores, which they were willing to do if they could only get their money into our bank, because they felt that our bank was safe.

Now, I say that if a branch banking law were to be legalized in this country, I would suggest starting on a very small scale—possibly, for argument's sake, say county-seat branch banking, and then allow it to develop and see whether it is a better system than the other.

Mrs. PRATT. Would you feel that under the group system you could eventually take care of the whole situation without branch banking?

Mr. DECKER. It would be more difficult and more expensive.

Mrs. PRATT. And you would not advocate branch banking from your group system? You would advocate a separate branch system?

Mr. DECKER. I am not advocating one or the other. I would have no objection and I see no objection to a branch banking system in trade areas, provided that you do not undertake to upset the group banking system which is now in existence, but if the one were to be forced at the exclusion or termination of the other, in my judgment it would be disastrous.

Mrs. PRATT. And you feel that really the only way to take care of these small communities at the present time is through a branch banking system?

Mr. DECKER. Except as they are willing to come to the centers or if the town is large enough to support a unit bank.

Now, let me qualify that to this extent. You can go into certain sections of Iowa where the country is very thickly settled and very prosperous, and, notwithstanding some reports to the contrary, there are many small banks that are very prosperous. I happen to know of one group of small banks there where the profits are so much larger than our own that it makes us look like 30 cents. But, when you get to the sparsely settled regions of the Dakotas and Montana, it is quite different; it just is not in the cards for a small unit bank to make a living; it is not there. So many of their prerogatives have been taken away. They no longer loan money on mortgages at a profit; they no longer have land, their insurance has been taken away from them, and they can not handle securities because there is little demand for them, and their overhead is so great and their taxes so high that they can not make money enough to take care of their losses, to say nothing of their operating expenses.

Mrs. PRATT. But you have, through your group system, practically cleaned up the area through which you operate, have you not?

Mr. DECKER. No; we have hardly started. Generally speaking, we have taken banks in key towns.

Mrs. PRATT. What I meant was that you have taken care of those communities where there have been failures.

Mr. DECKER. Not in every instance, no. We have taken banks largely in key points, as we call them, feeling that if we had in North Dakota, for instance, 15 important points where there were sound banks, the State would not suffer very greatly, at least in comparison with the condition that they had been in.

Now, we have soft-pedalled, so to speak, on reaching out further and taking more banks, partly out of respect, as I stated this morning, to the Secretary of the Treasury, who said he hoped that group banking would proceed moderately until this whole question has been considered. We do not want to go ahead, Mr. Wakefield's group and ours; we could go out and in 12 months take in 500 banks without any question whatever, and they would be delighted to come in on almost any kind of a basis. If this committee wants to assume the responsibility of saying, "Go ahead and do it," we will get busy, but while the question is being agitated nationally we felt it was no more than decent for us to slow up a little until we saw what action Congress was going to take, and we knew better ourselves how far we could find it profitable to go because we are not a philanthropic institution, and neither is any other banker or group of bankers, because you can not get away from the fundamental principle that banks have got to make money or go broke. We have had it demonstrated many times.

Mrs. Pratt. You feel that the group system, or banks operating under a group system, gives a greater stimulus and initiative to local industries, do you not, than, say, a branch banking system?

Mr. Decker. Very greatly, Mrs. Pratt. I can not help but feel that a system of branch banking in this country such as exists in England, with five banks, we will say, controlling the banking interests of the United States, will be almost a death-knell to the initiative of the American people. Their whole training and traditions are contrary to it; they rebel against it, and I share that feeling with them.

Mrs. Pratt. The Comptroller of the Currency, and I do not know whether Governor Young made the statement, but it was made here several times, said that it was desirable to decentralize credit and to have a greater number of credit centers throughout the country. Would you subscribe to that?

Mr. Decker. Absolutely, but those centers must be large enough and strong enough to be of some consequence, or you accomplish nothing. We, therefore, have set up a unit which in diversification and size we believe is large enough.

I want to make this perfectly clear, that we are in a very much more independent position of New York financially to-day than we ever were in the history of that country. There is no comparison. When Mr. Wakefield and I go down to New York to-day, they sit up and take notice. Why? We do not represent just one little bank that they can do what they please with; we represent an aggregation of capital and an aggregation of men and an aggregation of brains in different lines of business, so that they have a wholesale respect for us, and any deals we have with them are entered into to-day on a very much different basis than they were formerly.

Do I make that clear?

Mrs. Pratt. Yes; perfectly clear.

I think that is all.

Mr. Strong. Mr. Wingo.

Mr. WINGO. Do you know of any incentive that leads men to invest their money or keep it invested in the banking business when it is no longer profitable?

Mr. DECKER. No, sir.

Mr. WINGO. That is sometimes done in a local community to protect a local bank, it is not, but that is an exception?

Mr. DECKER. Yes, and that time has gone, Mr. Wingo.

Mr. WINGO. As I gathered from your statement, in your opinion the day of the independent unit bank has passed?

Mr. DECKER. No, I would not say that. I would say that in the very small town, yes.

Mr. WINGO. Except in the larger communities?

Mr. DECKER. Yes.

Mr. WINGO. What would you call a small town? What would be the limit, under your theory? If nothing is done and the natural trend of things is not interfered with, in what towns or in what size towns would the individual bank survive, in a State where branch banking is permitted statewide?

Mr. DECKER. Well, for instance, like California?

Mr. WINGO. Take any illustration that you care to give.

Mr. DECKER. We have not had any experience, Mr. Wingo, so it would be difficult for me to answer that.

Mr. WINGO. I was just trying to get your opinion. You said that in your opinion the independent unit bank had passed in the smaller towns. What did you have in mind there?

Mr. DECKER. It is not entirely the size of the town. It is the amount of business which they can acquire. A town might be very small and still have quite a rich farming community around it, and it might have considerable deposits, much larger than the size of the town itself would indicate.

Mr. WINGO. But that is an exception. Just take the general run of towns in your country, in which you are doing business. What do you have in mind as to the size of the town from which the unit bank will probably pass and which will have to be served either by group banking or by branch banking?

Mr. DECKER. Perhaps I can best answer with these statistics: The statistics show that during the last 8-year period, between 1921 and 1928, inclusive, 63 per cent of the bank suspensions were in banks with capital stock of $25,000 or less; 40 per cent were in towns with less than 500 population; 20 per cent were in towns of less than 1,000 population, and 19 per cent in towns of less than 2,500.

Mr. WINGO. That is interesting, and we have had those statistics and I have been studying them for months, but that does not answer my question. You stated in response to my question, that the day of the independent unit bank was passing, and you said that was only true of small towns. What size town did you have in your mind when you made that statement?

Mr. DECKER. I did not have any particular size in mind. I had in mind the town which was not large enough to enable a bank to make a profit.

Mr. WINGO. What, in your mind, in your territory is the size of that town?

Mr. DECKER. I would not want to say. I have not had enough experience to tell.

Mr. WINGO. Do you think, having in mind the natural trend of banking, that the independent unit bank is going to survive in communities of less than 5,000 or 10,000 population?

Mr. DECKER. I think it can easily survive in towns of 5,000.

Mr. WINGO. Do you think that the independent unit bank can survive in a town in competition either with a unit of a group banking or of a chain banking system or branch of a branch banking system?

Mr. DECKER. I do not know. I think only time will tell.

Mr. WINGO. You have not studied that question?

Mr. DECKER. The competition will be not of size, but of service.

Mr. WINGO. That is the point I am getting at.

Mr. DECKER. I think it will be increasingly difficult for the independent unit.

Mr. WINGO. Is there any reason why competition in banking service will affect the maintenance of the different units of banking any differently than in the case of grocers or hardware stores, or anything else?

Mr. DECKER. Yes; because banking is based on confidence. A man will go into a grocery store and buy a dozen oranges, and he does not care who he is dealing with, but when he goes in a bank there is the personal equation brought in, and there is the safety of the bank and the friendliness indicated in loaning money, and it is very different from getting on a street car and paying 10 cents for a ride.

Mr. WINGO. What is the total outstanding capital at the present time of your holding corporations?

Mr. DECKER. Approximately 1,600,000 shares, at $50 a share, par value, about $80,000,000.

Mr. WINGO. And how much of that is invested in the capital of the banks or subsidiary corporations?

Mr. DECKER. All of it except about, say, $12,000,000, which is in cash or its equivalent.

Mr. WINGO. And that sum represents what you called the liquid assets that you set apart?

Mr. DECKER. Yes, sir.

Mr. WINGO. You are keeping over 10 per cent of the liquid assets as reserve?

Mr. DECKER. Right.

Mr. WINGO. Your experience has shown you that that is ample in the group banking system?

Mr. DECKER. As far as we have gone so far. That is not in the banking system; that has nothing whatever to do with the individual banks. We do not take $1 out of any of the banks in our group, except the usual dividends paid. All the rest of the earnings remain in the individual bank, not a nickel in the holding company.

Mr. WINGO. You stated that you felt like keeping a certain amount of the liquid assets in the holding corporation to meet emergencies that might arise in some of these banks.

Mr. DECKER. That is right.

Mr. WINGO. I was wondering whether or not you had operated to the extent where probably you had established in your mind what would be a fair reserve—we will call it a reserve; it is comparable to the reserve for deposits in the bank.

Mr. DECKER. I would say that our experience up to date would indicate about 10 per cent or 15 per cent.

Mr. WINGO. In response to one or two questions by Mr. Beedy, you said something about its being better for Congress to proceed slowly and to "let nature take its course." I suspect that that expression has a different meaning in Maine than in your country?

Mr. DECKER. The gentleman here corrected me on that.

Mr. WINGO. As I understand, you mean that the credit necessities of the changing economic structure naturally will follow these economic changes?

Mr. DECKER. Right.

Mr. WINGO. And you think it is better to wait until you see what is going to be the final trend of this economic structure before you undertake to fix the final set-up of your credit structure to serve that economic structure; is that your thought?

Mr. DECKER. Will you repeat that, please?

Mr. WINGO. I got this thought when you first answered that, in view of something that you had said earlier in the day. Of course, we all agree that the credit machinery has to bend and to conform to the economic machinery—the structure which it serves.

Mr. DECKER. Right.

Mr. WINGO. And that with the change that is rapidly going on in the economic structure and industrial organization of America there is a tendency toward larger units?

Mr. DECKER. Yes.

Mr. WINGO. With mass production and resulting economies and all that talk that we are all familiar with, I took it that your thought was, when you said we ought to let nature take its course, that it would be better for the legislative body to wait until we had a settled economic structure that you thought was going to represent the general trend for some time, before we undertook to finally shape the credit machinery that would serve that economic structure?

Mr. DECKER. That was not exactly correct. What I meant was this: That there are forces at work, naturally, to-day correcting this situation, through group banking and otherwise, so that there is not the same necessity for haste on the part of Congress as there would be if those forces were not correcting the situation; and that the reason I thought it was wise for Congress to take its time was not so much to await developments but to make an exhaustive study of what the needs would be. If this committee of Congress, for instance, had sufficiently studied this question so that they were satisfied they had its solution, I would not wait for any development; but I do not believe that any one person in the United States to-day knows just what form this legislation should take, and that being the case, I see nothing in the present situation which calls for precipitant action without due and exhaustive study.

Mr. WINGO. The natural trend, you think, beyond all question, is toward group and chain and branch banking?

Mr. DECKER. Undoubtedly.

Mr. WINGO. Undoubtedly, you think?

Mr. DECKER. Undoubtedly.

Mr. WINGO. What distinction do you make between group banking and chain banking?

Mr. DECKER. There is a very decided difference. Chain banking is largely small banks, or, perhaps, a little larger bank, operated more nearly like branches and owned and operated by a holding company, which is in turn owned and dominated by 2, 3, 4, or 5 men.

Mr. WINGO. There is a difference, then, only in the spirit and domination of management?

Mr. DECKER. No. Group banking consists in the joining of strong bank, large or small, goods banks that can make money, each one of which is presided over by a local board of directors and local management and not dominated in the same way that a bank in a chain is, and the parent company in group banking like ours is presided over by 126 directors, all of whom are successful men, so that you have not the domination of 1, 2, 3, or 4 men, for no matter how good they might be, they might be tempted to do some things which should not be done. In other words, it is utterly impossible with 126 directors in our corporation to join in any movement that would weaken or undermine our banking structure.

Mr. WINGO. You said that there were 500 banks that were anxious to come into your system——

Mr. DECKER. I think that is about right.

Mr. WINGO. If you had not decided to go slow on account of the suggestion of the Secretary of the Treasury.

Mr. DECKER. Yes, sir.

Mr. WINGO. Naturally the inquiry in my mind was why there had not been another group formed to take over these 500, if they are so enamored of the group-banking system.

Mr. DECKER. Well, it makes no difference how much they are enamored of it; the fact is that these so-called 500 banks that wished to join our group have evidently not interested some one with sufficient capital and brains and organization to take them and form a group.

Mr. WINGO. And they are attracted by the brains and the success in the operation of your corporation—that is the reason they come to it?

Mr. DECKER. Let me make clear another thing. In my judgment it would be impossible to successfully form a group system of banking unless it was centered around one or two, at least, very strong, successful banks in an important center. It would have to head up in one or two very strong banks or it would not be a success.

Mr. WINGO. And I believe you stated earlier in the day that, after all, the success or failure of a bank largely depended upon its management?

Mr. DECKER. Yes; and its location in a place where it is possible to make money.

Mr. WINGO. Yes. The success or failure of the average bank will depend largely, like the success or failure of the average industrial plant, automobile corporation, or any other, upon the ability and the efficiency of the managing brains?

Mr. DECKER. Right.

Mr. WINGO. Management is three-fourths of it?

Mr. DECKER. Well, I would say nearer seven-eighths.

Mr. WINGO. All right. In these groups that you have just spoken of there is danger of deterioration when they lose these few choice executives which attract these banks now. Take these 500 banks, for instance; if you and these other executives who have proven their ability were to pass out, do you think they would be less inclined to get into your group?

Mr. DECKER. I think you would always find in our organization young men coming along who are smarter and abler than we are.

Mr. WINGO. The perpetuity and continual growth of the strength of your corporation depends upon your ability to train additional executives to take the place of your men as they drop out?

Mr. DECKER. Absolutely; and we have a school for that purpose.

Mr. WINGO. Do you think there is any unhappiness in the business world in the fear that possibly we will not be able to get enough trained executives to handle these larger units?

Mr. DECKER. In banks?

Mr. WINGO. Banks and everything else. I have been led to believe, in my conversation with men, that there was this fear. They believe in these economies of mass production, and so on, but their chief fear was that they would not be able to find men with the executive ability and training that can make a success of the operation.

Mr. DECKER. I think that is answered by the greater opportunity for the development of young men at large salaries and profit-sharing plans which make these young men independent, and a great deal more independent, Mr. Wingo, in my judgment, in most cases than they would be if in business for themselves.

Mr. WINGO. As I understood, your suggestion was that you went out of your trade area, or your Federal reserve district, down into Iowa and Nebraska in order to get diversification?

Mr. DECKER. Yes.

Mr. WINGO. Or, rather, you cited that as one of the benefits that flowed from your going down there; that that gave your corporation a diversity of investments or banking operations which added to the strength and security as well as the profits of your institution?

Mr. DECKER. Right.

Mr. WINGO. You suggested that you would limit branch banking to, say, a county seat or a small area; that possibly the set-up you thought would be available would be a group system, and, say, here in a large town—we will take a county seat for an arbitrary illustration—will be one of your sound and capable group banks, a unit of your group. Then your theory will be that that unit of your group will be permitted to have tellers' windows or branches in these smaller towns in that county or immediate area that would not be able to maintain profitably a separate independent unit bank?

Mr. DECKER. Right.

Mr. WINGO. If it is necessary, in order to give strength to a group system, to have a wide diversity of business and of area, why is it not also true of the branch? Would you not have a failure of diversity of business if you had that branch confined to that one county?

Mr. DECKER. I have no objection whatever, Mr. Wingo, to the branch privilege being extended over that entire trade area so long as you do not disturb the group bank which is in existence to-day. If you will allow the two to compete with each other, you can make the trade area in branch banking just as large as you please, and if that proves to be the better plan and people like it better, Mr. Wakefield and I will be delighted to take that.

Mr. WINGO. You put your finger on the real situation, and that is this, that in spite of the efforts to restrict concentration of capital, both in industry and banking, as represented by laws of Congress and as represented by banking laws and other laws of the different States, the combination of the leaders of industry and banking, of necessity, finding these other concentrations of capital, have found a way to develop those larger concentrations, and you think, I gathered, that even if we changed these laws, these same men will through these combinations find a way to meet the changing necessities of the day?

Mr. DECKER. Yes; if you do not interfere with existing conditions; but my judgment is that if branch banking were authorized over our entire so-called trade area, or the area which the Northwest Bancorporation is operating to-day, and group banking were in some way legally forbidden that it would result in disaster.

Mr. WINGO. But if we left the situation as it is now, the determination whether group banking or branch banking would prevail, or whether you would have a combination of each, would depend entirely upon the determination or judgment of the men who were putting their capital in the banking business?

Mr. DECKER. Absolutely.

Mr. WINGO. Do you know of any reason why we should suspect that those who are engaged in the banking business would have less difficulty in getting around restraining laws than do the industrial leaders in getting around the restraining laws with regard to industrial combinations?

Mr. DECKER. Well, I think banking is much more dangerous to tinker with than any other business in the world, because it is the heart of all business.

Mr. WINGO. I agree with you, but you do not catch my question. Is there any reason why we, as legislators, could hope that a restrictive law restricting the combination and concentration of capital in banking can be any more effectively enforced than the present laws restricting the combination of capital in industry?

Mr. DECKER. Well, I do not know.

Mr. WINGO. It is the same problem, is it not?

Mr. DECKER. Very largely. Bankers are human; there are good, bad, and indifferent ones, but the poor ones do not survive.

Mr. WINGO. In other words, if a majority of the men engaged in the banking business—men whose character and achievements and ability, as well as their control of funds, command the respect of the investment and the banking world—make up their minds that a given form of banking shall be used, they will find a method, do you not think, to use that form, just like the same type of men in the industrial world are finding a way to get around the antitrust law?

Mr. DECKER. I have no doubt that they would attempt to find a way.

Mr. WINGO. Yes; we know that, but I am not quarreling with you. The thought I had was this, that I sometimes wonder if there is not such a thing as the futility of attempting to enforce certain laws, unsupported by public sentiment.

Mr. DECKER. Against economic laws, absolutely.

Mr. WINGO. There are certain economic forces that are represented by the conclusions that are registered by leaders of industry in this country, and those economic forces have in the past frequently proven superior to either the wisdom or stupidity of legislative bodies, have they not?

Mr. DECKER. Absolutely, and the sooner Congress can determine what those economic laws are and we go with them instead of against them, the sooner you will get effective legislation.

Mr. WINGO. You said that branch banks could be operated on a more economical basis than units of a group. What economies of operation did you have in mind when you said that?

Mr. DECKER. Less taxes; you could operate on a much smaller capital. I have the figures here to show that our deposits in proportion to the total capital investment in our group are much smaller than in Canada, Great Britain, or any other country that operates entirely on branch banking. If we were to change all of our banks into branches and make them all branches of the Northwestern National Bank of Minneapolis, that bank would not require as much capital as the combined capital of all of these banks, and there would be a great saving there. There would be a saving in the cost of operation of a branch bank, because it would be run by these so-called hired men at a great deal less expense; but I am equally certain that the difference in cost is more than offset by the advantage of our plan, at least so long as public opinion in that district is as it is to-day.

Mr. WINGO. Public opinion is changed by propaganda overnight; you are aware of that.

Mr. DECKER. Well, it is changing, but it is not merely public opinion; it is local pride, a very desirable thing to have, to maintain, and not to destroy, I think.

Mr. WINGO. Are you an attorney?

Mr. DECKER. Not yet.

Mr. WINGO. You made the statement that if your system were turned into a branch banking system, then the local branches in the States other than the States where the parent corporation is located would not pay any taxes.

Mr. DECKER. Personal property taxes.

Mr. WINGO. What attorney gave you that opinion?

Mr. DECKER. No attorney did. All I know is that the banks in North Dakota are paying in about $150,000 a year in personal property taxes, on the capital stock of those banks.

Mr. WINGO. Do you mean to say that if a bank in Minneapolis had a branch in South Dakota, the branch would not pay any personal property tax in South Dakota?

Mr. DECKER. Not unless they enact a new law.

Mr. WINGO. Have they not a personal property tax out there?

Mr. DECKER. I understand so.

Mr. WINGO. How can they escape it?

Mr. DECKER. Mr. Washburn here is a lawyer.

Mr. WINGO. They would tax you on real estate and on the capital out there.

Mr. DECKER. There would be no capital there.

Mr. WINGO. No capital?

Mr. DECKER. No, sir.

Mr. WINGO. They might do like some of the States, require these foreign corporations to estimate the amount of capital used in the State and then that would be the basis of a contest in the courts.

Mr. WASHBURN. Perhaps so, but they would have to pass a new law.

Mr. WINGO. Do you think Congress would permit a corporation to escape taxes like that?

Mr. WASHBURN. Section 5219 now covers that.

Mr. WINGO. Your corporation is a Delaware corporation, is it?

Mr. DECKER. Yes, the holding company.

Mr. WINGO. Suppose that you had a corporation with branches in other States; if it is a State corporation, section 5219 would not apply to it, and you gentlemen might say that they would escape local taxes.

Mr. DECKER. No, the corporation which would have branches would be the Northwestern National Bank of Minneapolis. The Northwest Bancorporation would be dissolved.

Mr. WINGO. You say that under a branch banking system that the branches would not pay any taxes because the situs of the branch was in a different State than the situs of the home bank?

Mr. DECKER. I assume that. Perhaps I may be wrong.

Mr. WINGO. I think you are in error, but you may be right. I am not much of a lawyer, and I am mistaken frequently, but I think you are now.

Mr. DECKER. Very likely.

Mr. WINGO. Mr. Chairman, I believe I will forego the other questions so as to give these gentlemen an equal opportunity with mine.

Mr. STRONG. Mr. Fort.

Mr. FORT. Mr. Decker, you have said that your banks, with the exception of three or four, do not deal in securities—is that correct?

Mr. DECKER. Well, the banks themselves in no case deal in securities.

Mr. FORT. Either as underwriters or otherwise?

Mr. DECKER. No, sir; except as they buy them for their own investment.

Mr. FORT. They do not enter into underwriting?

Mr. DECKER. No, sir.

Mr. FORT. But they have affiliates in some cases?

Mr. DECKER. Yes, sir; corporations capitalized for that purpose.

Mr. FORT. With the same officers as the officers of the bank?

Mr. DECKER. Not entirely. They are expert men in that particular line.

Mr. FORT. Do you feel in these modern days, when so many of the loans of banks are upon collateral, that it is wise for the same men to act both as officers of an affiliate underwriting securities and as officers of the bank making loans on those identical securities?

Mr. DECKER. I think it is an element of safety, because the securities company affiliated either directly or indirectly with a strong bank will be more conservative than a securities company which is not affiliated with a strong bank.

Mr. Fort. You think that there would be no feeling of obligation on the part of the bank to grant greater loans on securities sold to its customers by its affiliate than it would grant on securities sold to its customers by others?

Mr. Decker. Not the slightest obligation. In fact, in our own bank, we do not even know what securities the securities company is handling, unless it is a special one that has been brought to our attention. We pay no attention to that whatever.

Mr. Fort. Some of your banks are incorporated under Federal law, under the national bank law, and some under State laws, are they not?

Mr. Decker. That is correct.

Mr. Fort. Do you see any advantage or any disadvantage to be had by having uniformity of both State and national laws?

Mr. Decker. Very great.

Mr. Fort. Which way should it be—uniform or not?

Mr. Decker. Uniform.

Mr. Fort. Would it be your judgment that the national code, as it now stands, is a better banking code than the State codes?

Mr. Decker. I think, as a rule, yes. Many of the State codes, however, are modeled after the national. Our own is in Minnesota.

Mr. Fort. How many banks are there in your own group?

Mr. Decker. Ninety-eight.

Mr. Fort. And how many in Mr. Wakefield's group?

Mr. Decker. About 93.

Mr. Fort. How many member banks are there in the Ninth Federal Reserve District?

Mr. Decker. Members of the Federal reserve system, you want?

Mr. Fort. Yes; the total number.

Mr. Wakefield. There are over 300 and some odd banks which are members.

Mr. Fort. The story has been told to some of us that your two corporations combined own sufficient banks to give you, acting jointly, the power to elect the directors of the Federal Reserve Bank of Minneapolis. Is that true or not?

Mr. Decker. I do not know. I have not taken the trouble to even look it up. I have absolutely no interest in it, because I do not know what in the world we would do with the Federal Reserve Bank if we did control it.

Mr. Fort. Do you feel that it is a desirable situation that an instrumentality of the Government, such as the Federal reserve bank, should be subject to control as to its directorate by any single group?

Mr. Decker. No, absolutely not.

Mr. Fort. Or any combination of a couple of groups, working together?

Mr. Decker. Well, it would be just a question of which would secure the better management of the Federal reserve bank.

Mr. Fort. But, the distinction being that the Federal reserve bank is a Federal instrumentality, do you think it ought to be allowed to be controlled by a relatively small number of men in a district ?

Mr. Decker. I should think it would be better if it were not, and certainly we have not the slightest desire to control it.

Mr. FORT. You have said, and quite wisely, that we should be very slow to legislate in this question, and I think you have shown a very fine spirit in your view that you should be slow to proceed to scramble anything that we might feel ought to be unscrambled.

Mr. DECKER. Right.

Mr. FORT. Do you think that it would be wise for us to request the banks of the United States generally to withhold group and merger action until we can reach a decision?

Mr. DECKER. Well, I should doubt it.

Mr. FORT. Your own procedure has indicated that you feel that is what should be done.

Mr. DECKER. Well, in the meantime there might be delay in operations which are distinctly of service to the business of the country. I never had the thought presented to me before of Congress suggesting to the public that some day it is going to pass a law and they had better hold off until Congress decides what the law shall be.

Mr. FORT. Of course, a great deal of this has to meet the approval of Federal officers.

Mr. DECKER. I think it would be very proper for the Comptroller of the Currency to keep very close supervision of what is going on in the country in the way of group banking, to see that nothing is done which would indicate a stock-jobbing plan or a manipulation of banks, and if he saw the slightest evidence of it, I think it would be very proper for this committee to charge him with keeping a closer watch to see that no damage was done.

Mr. FORT. A merger of a national bank has to be with the consent of the Comptroller of the Currency?

Mr. DECKER. Right.

Mr. FORT. That he could control absolutely.

Mr. DECKER. Yes, sir. I would have no objection whatever to the Comptroller of the Currency being informed of every acquisition we propose to make, and I think we could satisfy him or at least he would agree with us or we would agree with him as to whether it was wise to go ahead, if it were a national bank.

Mr. FORT. You were asked a question or two about the operation of the fiduciary powers of banks in connection with the buying and selling of securities. Do you see any reason, Mr. Decker, why the same relation should not exist between a bank as trustee and its cestui que trust as the relation that exists between an individual trustee and the cestui que trust?

Mr. DECKER. Yes.

Mr. FORT. What?

Mr. DECKER. A bank is a large holder of people's money on deposit. We have felt in our own case that it was better to have the trust in an absolutely separate and distinct trust company, because under our own State laws, and therefore in the case of the Northwestern National Bank, we have no trust department. The trust company is managed by specialized men. It is a very dangerous, very complicated, and a very intricate business; it requires expert training particularly on the part of lawyers who have no knowledge whatever of commercial banking or even investment banking except as their trusts are buyers of securities.

Mr. FORT. I think you answered the previous question as though you differed with me. What I had in mind was this: That the ordinary private trustee may not, directly or indirectly, in any transaction with the trust make any profit of any sort or description other than the commission.

Mr. DECKER. Right.

Mr. FORT. In Kentucky they have a law that the bank must pay a minimum of 5 per cent interest on all funds on deposit with itself where it is the trustee and must further allow whatever it makes on other funds in its hands as interest to the depositor. That rule would apply to the individual trustee if he retained any moneys of the trust. Is there any reason for distinction in favor of a bank over an individual trustee?

Mr. DECKER. I do not think any bank or any individual trustee can afford to pay 5 per cent on trust funds and invest them in proper securities.

Mr. FORT. I said funds on deposit in those banks acting as trustees.

Mr. DECKER. Yes; but they must carry reserves against those deposits. My judgment is that they can not invest them safely and get such a rate of interest on the deposit.

Mr. FORT. The rule in Kentucky, as I understand it, is that it must pay all that it makes on its own trust funds, and that it may not deposit at 2 per cent, for instance, trust funds in its own checking department while awaiting investment.

Mr. DECKER. We are not permitted to keep our own trust funds in the trust company at all.

Mr. FORT. Do you believe in that?

Mr. DECKER. Absolutely.

Mr. FORT. Then the question of the rate of interest becomes immaterial.

Mr. DECKER. And we have to go out and compete in the open market for the interest you can get.

Mr. FORT. I think that is eminently correct.

Chain banking, as we have it to some extent in my State, has taken the form of ownership of the stock of one bank by another bank. Are your banks permitted to own stock in other banks?

Mr. DECKER. No, sir; except in foreign banking corporations, and then with the consent of the Comptroller of the Currency.

Mr. FORT. How about your State banks and trust companies?

Mr. DECKER. They are not permitted to own stock in any corporation.

Mr. FORT. Are your trust companies?

Mr. DECKER. No, sir.

Mr. FORT. So there is no cross-ownership of stock anywhere in your system?

Mr. DECKER. No, sir.

Mr. FORT. In a group system such as this, in those States that permit banks to own stock, they ought not to be permitted to own stock in the company that owns the control of them, ought they?

Mr. DECKER. Certainly not.

Mr. FORT. Or cross-stock ownership in each other?

Mr. DECKER. No, sir.

Mr. FORT. Your suggestion of teller's windows in the smaller towns which are not big enough to maintain a unit bank brings up this question: Would you limit those teller's windows to those communities where there was no unit bank?

Mr. DECKER. Well, I think the natural result would be that if there was a unit bank in that town and it was unprofitable, they would certainly want to go out of business and would immediately go to the bank which was authorized to start a branch there or a so-called teller's window, and if they had assets that were of any value at all, the two would get together.

Mr. FORT. Yes; but let us take the towns where there is a unit bank and where it might be thought that there was also room for a teller's window; would you have the teller's window go in and compete with the unit bank?

Mr. DECKER. I would not fear that, because the bank would not start a branch there without the approval of the Comptroller of the Currency if it were a national bank, or without the approval of the State department of banking if it were a State bank, so that I think that that check would take care of it.

Mr. FORT. But we are considering here the possible adoption of branch banking through trade areas, and in formulating legislation should we permit the Northwestern National Bank of Minneapolis, as an example, to establish a branch or a teller's window in a town already possessing unit banks?

Mr. DECKER. Certainly, with the consent of the Comptroller of the Currency; otherwise they could only have a branch in some place where there was not a unit bank. The probabilities are that they could not make any money there.

Mr. FORT. I am not speaking of your organization in the Northwest, but, generally speaking, men being human, would not the power to establish a branch in competition with a unit bank have the result of forcing the unit bank to become a member of a group, if you wanted it?

Mr. DECKER. Well, I think that if that privilege were given, it could only be operated with the consent of the Comptroller, and the danger would be very greatly minimized.

Mr. FORT. Not so long, would it, as you have a duplicate system of State and national banks and you have in your group members of both?

Mr. DECKER. If the group continues, I see no objection whatever to saying that you could not put in a branch where there is a unit bank, but if you are talking about branch banking exclusively, that is, doing away with group banking and having nothing but either trade area branch banking or absolute unit banking, group banking and chain banking to be done away with entirely, then that is a different question.

Mr. FORT. I was talking on the theory of a possible extension of branch banking privileges without an effective prohibition of group or chain banking.

Mr. DECKER. Well, then, we have no objection whatever to branch banking being restricted to towns where there are no unit banks.

Mr. FORT. Would it or would it not be a sounder piece of legislation?

Mr. DECKER. Well, that is a pretty delicate question. I do not know.

Mr. FORT. The theory being whether we want to permit competition from a big bank in a metropolitan center——

Mr. DECKER. I see your point.

Mr. FORT (continuing). With a locally controlled bank which desires to remain independent.

Mr. DECKER. If you prohibited the larger bank from having a branch in that town, how are you going to serve the people?

Mr. FORT. Presumably the unit bank will not continue unless it is profitable, as you very ably pointed out.

Mr. DECKER. You would wait until they were ready to quit?

Mr. FORT. In other words, you would either have to wait until they were ready to quit the locality or else you would have to permit a big bank like yours to go in and put up a form of competition that the local bank could not stand.

Mr. DECKER. I still think I would not make that restriction so long as the larger bank could not put a branch in the town where there was a unit bank except with the consent of the Comptroller of the Currency. If you want to entirely eliminate the competition between the State and the national system—and, of course, the small bank in most cases will be the State bank—then you immediately say to the national bank, " You can not go into a town where there is a State bank," and I do not believe that that would be in the interest of the national banking system.

Mr. FORT. I see that view; I had not thought of that.

One other line of questions. You have explained, and I think entirely proper, the reasons for the different rates of interest that are paid by local banks in your group to depositors. Do those same reasons apply as to the rates of interest that should be paid to the depositors in a branch banking system, or should a branch banking system pay uniform rates to all of its depositors?

Mr. DECKER. Well——

Mr. FORT. The investment of funds is identical.

Mr. DECKER. I have had no experience in branch banking, but my first thought would be that in all probability under branch banking they would pay the same rate at all points, and I think the Canadian banks do that. I think that would be a natural development.

Mr. FORT. Of course, if we were going to allow branch banking to compete with unit banking, they could go in and pay a higher rate of interest.

Mr. DECKER. The unit bank could.

Mr. FORT. The branch in the town where it was competing?

Mr. DECKER. Yes.

Mr. FORT. And the question in my mind is, if we are going to extend branch banking, should we permit that to be done, or should we say that since all of these investments gain the same rate of interest, whether from Minneapolis or Fargo, you have to pay the same rate to your depositor?

Mr. DECKER. I think that would be fair. In other words, I think it would be unfair to let the branch go into a town to-day where there is a unit bank and try to run that bank out by putting up the rate. I think that would be grossly unfair, and should be curbed.

Mr. FORT. Or for them to get the money from the town where they had no competition and paid a minimum rate of interest there?

Mr. DECKER. I think that is unfair.

Mr. FORT. And then pay a higher rate where they had competition?

Mr. DECKER. I think that is unfair.

Mr. FORT. That is all.

Mr. STRONG. Mr. Busby.

Mr. BUSBY. I believe you stated that your authorized capitalization was $300,000,000?

Mr. DECKER. Yes, sir.

Mr. BUSBY. And you only have $80,000,000 of that subscribed and outstanding in stock?

Mr. DECKER. Right.

Mr. BUSBY. And that gives you an additional $220,000,000 to be brought into play in the operation of your Northwest Bancorporation in the event you decide that you need it?

Mr. DECKER. Yes, sir.

Mr. BUSBY. What amount of that $80,000,000 outstanding covers banking operations?

Mr. DECKER. All except about $12,000,000, which is in cash or liquid securities.

Mr. BUSBY. Now, what part covers investment trust operations or securities? Do you have separate corporations organized as investment security organizations?

Mr. DECKER. Yes, sir.

Mr. BUSBY. How much do they amount to?

Mr. DECKER. I would have to guess at it, but I would say $3,000,000 or $4,000,000.

Mr. BUSBY. Now, you have also your cattle loan financial organization. What does that amount to?

Mr. DECKER. I think the capital is $150,000, capital and surplus.

Mr. BUSBY. You told us a while ago of issuing 150,000 shares of stock of the holding company, which was taken over by a syndicate at $72 a share?

Mr. DECKER. At $70. It was offered to the shareholders at 72. The underwriters were given two points for underwriting it.

Mr. BUSBY. And, that having been taken over by the underwriters, they attempted to sell it and the stock market crash came before they disposed of it?

Mr. DECKER. No, the stock market crash came long before they acquired it. They did not pay for it until December 15, or six weeks after the crash in the stock market.

Mr. BUSBY. What type of organizations composed your underwriting syndicate?

Mr. DECKER. Banks, securities companies, bond houses like Harris-Forbes, Guaranty Trust, Halsey-Stuart, the Continental in Illinois, First Chicago, and others all over the country.

Mr. BUSBY. The greatest number of units included in that number of 75 which formed the underwriting syndicate were investment trust organizations, were they not?

Mr. DECKER. No, none of them were investment trusts. They were bond and securities houses who buy and sell securities.

Mr. BUSBY. Outright?

Mr. DECKER. Yes, sir.

Mr. BUSBY. The way things turned out, your organization made $3,000,000 on that adventure, between the price at which it proposed to repossess them and that at which it sold them?

Mr. DECKER. And we added $2,800,000 to our surplus.

Mr. BUSBY. You outguessed the other fellows?

Mr. DECKER. We thought we did a good piece of merchandising. [Laughter.]

Mr. BUSBY. That is the situation all over the country with banks that have large banking organizations and that have these subsidiaries?

Mr. DECKER. Yes, sir.

Mr. BUSBY. They are engaged largely in the merchandising or guessing game, as to which one is going to get the better of the securities operation when it finally is sold out?

Mr. DECKER. Yes, sir.

Mr. BUSBY. Do you not think that that situation has largely inflated the bond and stock markets of the country?

Mr. DECKER. Undoubtedly.

Mr. BUSBY. Do you not think that the credits required by the business of the country are much less than the amount of credits that have been extended by operations just described and by bank loans and call loans?

Mr. DECKER. At the inflated period prior to the crash, yes; to-day, no.

Mr. BUSBY. A year ago at this time, did your banks maintain a large reserve in the New York banks so as to take advantage of the high rate on the call money market?

Mr. DECKER. Many of them; not with the New York banks.

Mr. BUSBY. I mean in that locality, so as to be available for the New York Stock Exchange operations.

Mr. DECKER. Many of them loaned money on the Street on call loans and made those loans through a New York bank.

Mr. BUSBY. That is what I mean.

Mr. DECKER. Oh, yes. In our case, it happened at a time when our elevators were full of grain, and our money was all being used at home. We did not have any money loaned in Wall Street because we did not have any to spare.

Mr. BUSBY. I did not say when the crash came; I said a year ago at this time.

Mr. DECKER. Well, we do not hesitate to loan on the New York Stock Exchange, so-called brokers' loans, when the money is not required at home by our own customers.

Mr. BUSBY. Do you not think that the fact that the call loans commanded an interest rate considerably above that ordinarily realized in the commercial field that it pulled much money from all other parts of the country to New York City where those operations were under way?

Mr. DECKER. Not in our banks. We paid no attention whatever to the call-rate loan in New York.

Mr. BUSBY. You could make more money by placing it there.

Mr. DECKER. Yes, temporarily, but we would have driven our trade away. We loaned to our customers at 6 per cent millions of dollars when we could have loaned it on the Street at 10 per cent, and it did not tempt us a particle. In the first place, we were not interested in the other 4 per cent and, in the second place, we thought that it was safer to lend our money at home.

Mr. BUSBY. Subsidiaries that deal in stocks and bonds are hardly as stable as the main banking institutions in their operations, are they?

Mr. DECKER. No, sir; they are not as stable.

Mr. BUSBY. And that is the reason why you would prohibit them from holding and handling trust funds placed as you mentioned a while ago?

Mr. DECKER. Yes, sir.

Mr. BUSBY. With your banking institution.

Mr. DECKER. But I want to differentiate between the securities company affiliated with us and the one that is independent on the Street, because we have a reputation at stake, and naturally our securities company will decline many underwritings which the private banking institution takes over.

Mr. BUSBY. What would you think of a law that would prohibit banking institutions from having subsidiaries that engaged in that class of marketing?

Mr. DECKER. I think it would be disastrous, because it would leave the field absolutely over to the private operater, who could raise more cain than the banks would ever think of.

Mr. BUSBY. It would make banks safer, would it not?

Mr. DECKER. No, sir; not in my judgment.

Mr. BUSBY. Do you not know that a bank that has a subsidiary, where that subsidiary is handling an issue of bonds, is going to be more lenient toward its own institution than it would toward the general field of investment?

Mr. DECKER. No, sir; absolutely not.

Mr. BUSBY. Do you not think that those same directors in the bank as are in the subsidiary, operating for the same purpose, to secure dividends on investments, would be easier with the investments handled by the subsidiary than they would with those coming from the general field of investment?

Mr. DECKER. No, sir. If a customer came in to see me as president of the Northwestern National Bank and wanted to borrow money on a certain security, and I happened to know that that security had been handled by our own securities company, I would scrutinize it more carefully than I would if it came from some other place.

Mr. BUSBY. That is a little contrary to human nature, is it not?

Mr. DECKER. No, sir; not in banking. It is contrary to the methods of banks that have gone broke.

Mr. BUSBY. I thought you had been putting human nature into your banks, until we came to these securities companies, and there you seem to get hard on them.

Mr. DECKER. Any banker who is not hard once in a while won't be a banker very long. It is not at all impossible for a bank to be strict and severe and still be human.

Mr. Busby. Now, the inflation of 1921 was spread over the country generally, was it not?

Mr. Decker. Yes. 1920, I think it was.

Mr. Busby. I meant 1920. And then we began to build up a new method of financing. Instead of borrowing money from a bank, business enterprises issued stocks and bonds and sold those to the public generally, and the public all over the country acquired those investments, did they not?

Mr. Decker. Yes.

Mr. Busby. Those were sold largely on the New York Stock Exchange and on the other stock exchanges throughout the country to the public. Do you not believe that the public bought many of those with a view to getting a raise in the market rather than getting dividends on the stocks?

Mr. Decker. Unquestionably.

Mr. Busby. And it was more of a gamble, so far as the public was concerned, than an investment?

Mr. Decker. Yes.

Mr. Busby. And these inflated bank credits and the easy money for call loans increased that type of operation on the part of the people over the country, did it not?

Mr. Decker. Yes, sir.

Mr. Busby. And when the crash came, although it was in another way from the way the 1921 crash happened, it just as effectively stifled business and crippled the people financially as the crash of 1921, did it not?

Mr. Decker. No. The stock-market crash last year was not the cause; it was the result. We had been through seven or eight years of tremendously rapid expanding business; we were due for a slow-up. It was in evidence six months before the stock market collapsed, and therefore I think it would have come anyhow, a slowing up in business, and business is not slow to-day throughout the United States generally because of the stock-market collapse; it is slow because we have been going very fast, and naturally it is healthy to slow up.

Mr. Busby. We were overbuilt in many lines, were we not?

Mr. Decker. In many cities.

Mr. Busby. I am not talking of building in the sense of brick and mortar, but we were overdeveloped?

Mr. Decker. We were overtrading.

Mr. Busby. If I understand the situation aright, the demand for increased credits in 1928 was about 3 per cent, while through the different types of loans made in 1928 increased credit to something like 8 per cent, and we necessarily had to wait until we caught up with the demands for business to the extent that we had extended credit in the field of credit operations beyond a safe point compared with business needs.

Mr. Decker. Well, when you become too much inflated and you get prices too high, you have got to slow up until your savings and your increase in wealth is able to take care of that situation, and it happened in 1893 one way, in 1897 in another way, and last year in still another way, and the next one will probably be different. It all goes back to the same thing.

Mr. BUSBY. Are your stocks listed on the Chicago Stock Exchange?

Mr. DECKER. Ours is; yes, sir.

Mr. BUSBY. I notice that last week 2,750 shares——

Mr. DECKER. In the Northwest Bancorporation.

Mr. BUSBY (continuing). Were sold on the Chicago exchange. What would prevent outside interests from acquiring a controlling interest in your holding corporation if its shares are listed in sufficient number on the Chicago exchange?

Mr. DECKER. There is no list of shares, Mr. Busy, on the exchange. They are simply offers to trade in it. It would make no difference whether they were listed or not; it is always a question of buyer and seller. When those two meet, there is a trade.

Mr. BUSBY. Suppose some one kept on buying until enough of your shares were sold to a purchaser——

Mr. DECKER. They never would get them, because the higher the price goes, the less the holder is inclined to sell.

Mr. BUSBY. You saw to it that not enough shares in the Northwest Bancorporation are available at any price to the prospective purchaser to get control of your institution?

Mr. DECKER. I would say that 90 per cent of our stock belongs to people who would not consider selling it at any price, and if they suspected, as they would a long way in advance, a desire to get control, the proposed purchaser would be checked before he had started.

Mr. BUSBY. Where did these 2,750 shares that were sold come from?

Mr. DECKER. I have no idea.

Mr. BUSBY. Just come from somebody who had shares?

Mr. DECKER. A natural trader. They may have gone into better hands than before.

Mr. BUSBY. That is all, Mr. Chairman.

Mr. DECKER. Mr. Chairman and gentlemen of the committee, you have been very kind to me.

Mr. STRONG. On the part of the committee, I want to thank you for your visit here, and the information you have given us.

Mr. DECKER. Thank you.

Mr. STRONG. Mr. Wakefiield, can you remain over to-morrow night?

Mr. WAKEFIELD. Yes.

Mr. STRONG. If you can do so, I think it would be very helpful in that it would give the members of the committee an opportunity to get from you such information as you are in position to give us.

Mr. WAKEFIELD. I can spend Wednesday and Thursday here.

Mr. STRONG. That will be very helpful.

Mr. FORT. I move we adjourn.

(The motion was duly seconded and agreed to, and the committee thereupon adjourned until Wednesday morning, April 16, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 16, 1930

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

The committee met at 10.30 o'clock a. m., in the committee room, Capitol, Hon. James G. Strong presiding.

The Acting Chairman (Mr. Strong in the chair). The committee will come to order and the hearings will be resumed. Mr. Wakefield, of Minneapolis, is present and will address the committee. Mr. Wakefield.

STATEMENT OF L. E. WAKEFIELD, VICE PRESIDENT FIRST BANK STOCK CORPORATION, OF MINNEAPOLIS AND ST. PAUL, MINN.

Mr. Wakefield. Mr. Chairman and gentlemen, I represent the First Bank Stock Corporation, of Minneapolis and St. Paul, and I have here a prepared statement with copies enough to present to the various members of the committee; but in order to get the matter before you this morning I will give you briefly some of the facts which are presented in the statement.

As I understand it, the purposes of this committee are to investigate the trends which are taking place in the banking business, attempt to discover the causes for the recent developments, and to find a proper solution of the difficulties which have arisen and enact laws which will provide for the conduct of the banking business of the future.

In order to arrive at a satisfactory conclusion concerning matters of that kind, it is perhaps essential that we have some of the facts which have developed the present situation; and in speaking of the banking business my experience has been entirely within the ninth Federal reserve district, in that territory, and the things that I speak of will be those of my own knowledge as existing within that territory, and without any pretense on my part of understanding or of knowing definitely what may be the facts in other sections of the country.

Our territory was developed and built up from nothing, and during a long period of years, largely, I think, through the influence and operation of the so-called unit bank. Small groups of persons in communities of various sizes organized banks, and during a great many years successfully operated them, always, in my opinion, with the desire on the part of the people operating them to serve to the best possible advantage their particular community and the businesses and people who were within that community. Their undertakings were successful and commendable over a long period of years.

Up in our territory the development of the unit bank went way beyond any possible reason for the existence of banks, and in 1920 we found ourselves with a greatly excessive number of banks compared to population over any other section of the United States.

The State of North Dakota at that time had 5 banks in existence per population to 1 on the average over the country; South Dakota had 4; Montana, 3; and Minnesota twice as many as the average. Most of these were banks of small capital and small deposits.

Mr. LETTS. How was it in Iowa—can you say?

Mr. WAKEFIELD. I never made up figures on Iowa.

This development was largely encouraged by the feeling on the part of the various legislatures, the lawmaking bodies of the States, that the privilege of banking ought to be extended to the small individual—which is a perfectly natural and proper feeling—and the permitting of the establishment of banks of as small capitalization as $10,000, and in towns where the need for additional banks was not, perhaps, evident and justified. Banking was a popular business. During all that time there were certain profits to be derived in the banking business which have since been eliminated.

The business of making farm mortgages, and of selling them and transferring them to insurance companies and investors, afforded a very substantial profit to the country banker in the way of commissions on those loans. The business of selling lands, of dealing in them, during all this period, occurred when lands were increasing in value and the buying and selling of lands was of large volume and there were substantial profits to be derived by country bankers in the operation of the land business.

In addition to that, during that period, and up until recent years, each of those small country banks made it a practice to charge exchange on their checks when they were returned to those banks, and which furnished them, in many cases, with revenues sufficient practically to pay the clerical help of their banks.

Now all of those sources of revenue have disappeared. The establishment of the Federal land banks and the joint stock land banks, with their tax exempt securities, have changed completely the current of the mortgage business. The deflation and difficulties in the agricultural sections have practically eliminated farm land sales.

The establishment of the rural credit associations by the various States has been an added source of money on farm mortgages, and eliminated the natural and existing methods of handling those securities.

The Federal reserve bank, when it was established, operated upon the theory that all transfer of checks should be carried on a par basis and that eliminated, over a period of years, those exchange charges from which the small banks had derived considerable revenue in the years past. That particular feature, however, has recently been modified to some extent, and those small banks are again privileged to charge exchange and do so charge; that is, those not members of the Federal reserve system.

The general basis of loans in those banks in the ninth Federal reserve district, was upon credits largely based upon farm values and the business of agriculture. So in 1920, there was in existence in the ninth Federal reserve district, about 3,800 banks.

With the change that followed the deflation of agriculture, a large part of the basic value of the collateral upon which their loans were based, was destroyed. Over a period of many years, the increasing value of farm lands was an automatic debt satisfier on the part of the farmer and it was frequent or ordinary that the country banker would loan to his farmer customer on a second mortgage certain funds which, after a period of three to five years, could be joined onto the first mortgage on that land and liquidated to his bank.

With the deflation period coming on, that possibility or opportunity was no longer in existence and the country banks found themselves holding equity security to cover the debts of his customers to his bank and to which there was no value.

Just in order that we may understand just a little of what has taken place in connection with farm values, there have been in the ninth Federal reserve district, during a period of four years, abandonments or foreclosures in the four States of North Dakota, South Dakota, Minnesota, and Montana (this is based upon figures prepared by the Department of Agriculture), the years being 1923, 1927, 1928, and 1929, involving 25,820,000 acres and covering 67,867 farms.

During the period from 1920 to 1929, there were 1,517 banks closed in that district. There were 226 of those banks which have since reopened, leaving the remaining 1,300 closed involving deposits of over $300,000,000, which represented the savings of the thrifty people of the towns in which those banks were located, to the number of approximately 300,000.

Now, gentlemen, I do not know whether any of you have ever lived in a town where there has been a bank closing. But if you have, you have some appreciation of what it means to have the savings of the thrifty people of the community, accumulated over 15, 25, or 30 years, wiped out and destroyed in an overnight catastrophe. It means that that community has a setback that it will be the most difficult thing for them to recover from, and such things have happened in 1,517 communities in the ninth Federal reserve district, and I have a map here showing the ninth Federal reserve district and showing by black spots each point where there has been a closed bank. Some of them have several. I thought it would give you a picture, offhand, of the extent that that thing has occurred.

Of course, very many of these towns or sections were left entirely without banking facilities.

I have a statement here which is very carefully prepared. It is not an individual effort. It is the result of facts and thought given over several months, and I am going to leave enough of them so that each member may have one to read fully if he chooses to do so. I really would like to have this become a part of the record when I get through with it.

Mr. Strong. Without objection, it is ordered that the statement prepared by Mr. Wakefield, part of which he is now discussing, shall be wholly incorporated in the record at this point.

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

STATEMENT BY LYMAN E. WAKEFIELD, VICE PRESIDENT FIRST BANK STOCK CORPORATION; PRESIDENT FIRST NATIONAL BANK IN MINNEAPOLIS; BEFORE THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE OF REPRESENTATIVES

Gentlemen of the committee, group banking as it has developed in the ninth Federal reserve district is designed to meet definite conditions existing in the Northwest. I am not here as a special pleader for group banking as against any other system, but simply to explain the causes that resulted in the development of a system of banks around the First National Banks of Minneapolis and St. Paul.

Essentially group banking is the control through majority stock ownership of a number of banks through a holding company, patterned corporately after the modern investment trust, but operated as a central management institution. In our case the holding company is the First Bank Stock Corporation. With it are affiliated some 97 banks, trust companies, and financial institutions, all located within the boundaries of the ninth district, which includes the States of Minnesota, Montana, North and South Dakota, the upper peninsula of Michigan, and northwestern Wiscons n.

Banks in the group affiliate with the holding company through exchange of shares, or through outright sale of stock. Each retains its separate identity under local management of officers and directors and operates independently of the other member of the group, but subject to examination and supervision of the holding company.

Affiliation is a mutual transaction. We have maintained the position of offering opportunity to the individual banks to enter the group. Banks desiring to remain independent will continue to have our earnest support and cooperation. The First National Banks of Minneapolis and St. Paul have thousands of accounts from unit banks throughout the Northwest and Middle West, and certainly we would do nothing to jeopardize their position or attack their independence. But the independent banker appreciates the benefits to be derived from the group plan as acutely as do the metropolitan banks which fathered this practical reorganization of the banking structure in the Northwest.

The alacrity with which both the large and small banks in the district have taken advantage of the opportunity of affiliation is evidence of the fact that the northwestern banker is conscious of the benefits that the group system offers.

To understand the group banking movement requires an appreciation of conditions in the Northwest. Actually, a changed economic status has compelled a reorganization of rural banking. The group plan as we have developed it is accomplishing this reorganization and should result in greatly improved conditions, for certainly the Northwest must have strong banks in which there is absolute confidence if we are to progress commercially. The territory was and still is largely agricultural, although its resources are as diverse as any section of the United States, but the collateral that agriculture offered to substantiate its loans has always been the basis of most credit outside the largest commercial centers.

Prior to 1920 can be considered "the good old days" in rural banking. Since the Civil War, land values in the Northwest had been steadily appreciating. Agricultural banks loaning on real-estate collateral could deal almost blindly. The increase in land values over the period of three to five years always provided a volume of additional collateral and safety. Farm mortgages were as salable as Government bonds. The country banker was constantly solicited to sell mortgages to investors at distant points. If he made a mistake in putting too many eggs in the one basket, he had every reason to believe that it was about the best basket available.

Since 1920 the Northwest has been the scene of a constant struggle, political and economic, to reestablish the foundations of its basic financial structure which were rudely jarred by the sequences of the war. The years 1917 and 1918 had witnessed a magnificent effort on the part of the farmers of the Northwest to increase to a maximum the production of foodstuffs as a patriotic contribution of the Nation's war effort. Production costs increased, market values rose and land values appreciated greatly as a consequence. These incidents of expansion were reflected in the operations of the rural banks of the territory. Much additional land was brought into cultivation. Machinery and stock to till this new land were purchased in large quantities at high prices. The banks cooperated fully with the agricultural population by the extension of new credits which were reflected in tremendously increased deposits. A large equity in these newly developed farms was represented in second mortgages held by the banks as collateral for note loans.

With the advent of 1920, the general price level took a sharp decline and the reaction followed throughout the entire credit structure. Country banks serving exclusively agricultural communities and often areas dependent upon one or two cereal crops found themselves confronted with drastic deflation of all values upon which their business was based. When the price deflation began loans and discounts were at a peak two and one-half times as high as the level of a normal period before the war. The late John H. Rich, chairman of the board and Federal reserve agent for the Federal reserve bank in Minneapolis, described the banking structure as it existed in 1921 in a report submitted to the Federal Reserve Board.

"Just preceding the collapse of 1920," he said, "the district contained 3,875 banks, the acreage in wheat had increased, merchandising establishments had crowded in where there was no economic necessity for them, and all lines of business activity had been overdone. Nothing could be more characteristic than the then existing banking situation. Based on the ratio of population per bank for the United States as a whole, North Dakota had five banks where one would have been sufficient, South Dakota, four, Montana three, Minnesota twice as many as the national average."

Since 1920 America has heard much of the farm problem from the territory involved; but the banking problem was equally acute. During the 10-year period from 1920 to 1929, inclusive, 1,517 banks in the ninth Federal reserve district closed their doors. Of this number, only 226 reopened. The remaining 1,300, with deposits in excess of $300,000,000, were liquidated at a heavy cost to more than 300,000 depositors. These losses fell most heavily upon our farming population and it is from the districts hardest hit by bank failures that the most insistent demands for farm relief have come. In many cases the recovery by depositors was practically nil. Some paid from 15 to 20 cents on the dollar. But it was a minority that yielded the depositors more than one-half of the funds intrusted.

The grim record of closed banks by years follows:

1920	35	1925	168
1921	73	1926	283
1922	64	1927	142
1923	279	1928	94
1924	295	1929	84

But no statistical summary can tell the whole story of the distress that followed in the communities affected. The wiping out of the capital investments of stockholders and the further levying of liability assessments consumed the savings of thousands of individuals and families. Sacrifices far beyond legal requirements often were made in vain attempts to avert closings. Many towns were left without banking facilities. In a number of instances, public-spirited groups of business men out of loyalty to their home towns guaranteed deposits and brought out frozen assets enabling the banks to continue. These patriotic assumptions of loss, however, were few as compared with the total.

The farmer customer of a closed bank suffered doubly. Not only was his cash capital tied up, but he was deprived of his source of credit and was compelled to submit to hasty and unexpected liquidation of his loans to satisfy the claims of closed bank receivers. The man who had undertaken a program of diversification was forced to sell off his foundation stock at meat prices to satisfy his loan.

The rural bank failures are a direct reflection of agricultural conditions. The Department of Agriculture recently compiled a comprehensive record of agricultural bankruptcies. Covering the States of Minnesota, North and South Dakota, and Montana, it shows that farm bankruptcies for the four States during the five years from 1910 to 1914, inclusive, averaged 159 a year. Here is the record of such bankruptcies in the four States beginning five years later:

1919	111	1925	1,810
1920	173	1926	1,947
1921	256	1927	1,267
1922	679	1928	784
1923	1,420	1929	717
1924	1,999		

The precipitate deflation of farm land values carried prices to a point lower than had existed since the panic of 1893. The decline in some areas was much heavier than in others. Recently the Department of Agriculture surveyed the farm land situation in the States of the Northwest. Establishing the average price of lands from 1912 to 1914 at 100, it shows that the inflation carried valuations in Minnesota in 1920 to point 213, an increase of 113 per cent. The present level is 138. North Dakota went to 145 in 1920 and is now at 98, two points below the pre-war price. South Dakota went to 181 in 1920 and is now at 95. In Montana a peak of 126 was reached in 1920. In 1929, prices had fallen to a level of 72, or 28 points below the pre-war average. In 1925 the department estimated the loss in the four States in dollars at $2,754,000,000, and since 1925 this total has continued to mount.

With agriculture the basis of rural banking credit, these conditions resulted in an accumulation of "other real estate" in the banks of the territory. On June 2, 1918, "other real estate" in the banks of the four States totaled $9,271,000. Seven years later on September 28, 1925, "other real estate" was listed to a total of $45,323,000. And this does not include the great volume of such collateral that had been taken out of the banks through the organization of liquidating companies among the stockholders. Nor does it include the frozen real estate assets in the banks that had closed up to that time. Farm mortgages lost their liquidity and hundreds of banks were deprived of one of their chief sources of income.

Selling direct to the public or to large investing corporations, the rural bank was the primary farm loan agency prior to 1920, and the great traffic in such collateral was the prompting reason for the overly banked situation. To-day the remnant of this business is being conducted by new agencies such as the Federal and State farm banks, specifically chartered land banks, and employed agents of the larger mortgage purchasers such as the insurance companies. Many rural banks also conducted a general real-estate business, dealing principally in the sales of farm lands. This source of profit, too, has been practically wiped out.

Income from service charges of one form or another also has been reduced due to the constant pressure exerted by the Federal reserve banks and commercial organizations. The principle that the flow of commerce should not be hampered by exchange charges was costly to the rural banks, but in recent months there has been a tendency to restore a number of the abandoned service charges.

Looking back over this period we can see that the banking crisis had its inception in the events of the spring and summer of 1920. In 1918 a wheat crop of 277,000,000 bushels was grown in the four States of Minnesota, North and South Dakota, and Montana, and was marketed on a basis of $2.23½ per bushel for the best grade of hard spring wheat, the Government-fixed minimum price. The inflation commenced with the 1918 crop. Land values boomed; sales of farms and new lands were at record volume and price; deposits in country banks were at a peak and their loaning power was greatly expanded. Many banks established record earnings, which were distributed in dividends.

The 1919 crop, however, was short, only 140,000,000 bushels of wheat being produced, due to bad weather factors and rust damage. In the meantime the price had risen and reached as high as $3.40 a bushel during the fall of 1919. A peak of $3.50 was paid during the spring of 1920, and propaganda began to be heard in the farm areas that with the dissolution of the food commission's grain purchasing and rationing the lid would be off. "Five-dollar wheat" was the slogan and farm leaders, politicians, agencies, and seers of all kinds were actively urging the farmers to hold their 1920 wheat until after the Food Administration control expired the last of July. This propaganda was extremely effective, although world-wide distribution of foodstuffs was rapidly being restored. Had there been a normal marketing of grains during the period of fixed prices, a tremendous liquidation of farm borrowings would have ordinarily occurred. But by November best grades of spring wheat were selling as low as $1.49. The crop was being marketed in small quantities and the banks of the region were unable to collect more than a fraction of their seasonal bills receivable. The deflation set in quickly.

During the war-expansion period the country banks had been compelled to borrow heavily from their rediscount correspondents and the Federal reserve bank to carry their customers through the growing season, and it must be remembered that the war crops were produced at excessive costs for labor, machinery, seed, and materials of all kinds. The fall of 1920 found the country banker, who generally had excess funds at that period of the year, forced to borrow, further expanding his loans.

The 1921 crop was a partial failure and the banking situation began to become acute, with the country banker carrying a 2-year total of unliquidated loans.

The 1922 crop was large and prices correspondingly low. Best wheat brought from $1.06 to $1.22 during September and October. Collections somewhat improved. But the next year, 1923, the crop was again short with only 156,000,000 bushels of wheat being grown in the four States. Bank failures during the year showed a tremendous increase.

A large crop was grown in 1924 and was marketed at better prices then had been paid since 1920. Conditions were somewhat alleviated, but not permanently.

By this time confidence in country banks was badly shaken, and this lack of confidence further added to the rural banker's difficulties. He felt forced to keep his bank in sufficiently liquid condition to meet a mass withdrawal at any moment and as a consequence built up his reserves of cash on hand and on deposit with other banks, Government boards, and other easily negotiable low-rate paper. This not only reduced the bank's earning power but withdrew a large volume of capital from the support of ordinary business.

In the meantime new loaning agencies of all kinds had sprung up providing a further expansion of land credits. Federal farm banks, State land banks, joint-stock land banks, etc., were offering a margin on first mortgage real estate loans greater than the commercial banks had afforded at the peak of war expansion, thus increasing the farmer's fixed charges but not increasing his earning power. The intermediate credit banks were developed and continue to operate absorbing a considerable volume of business that should be conducted by the commercial banks. Chattel loans of a first mortgage nature on livestock and grains are agriculture's nearest parallel to the short-term notes of industry—basic banking collateral, and the intermediate credit banks absorbed much of this business.

These new agencies poured a tremendous volume of money into the country, but did little to assist in accomplishing liquidation of previous borrowings which the rural banks were carrying.

In this emergency, the first step toward group banking was taken with the organization of the Agricultural Credit Corporation of 1924. Financed by the largest industries of the Northwest with the aid of eastern interests, it set to work to meet a territorial problem. During its first year of operation, the corporation took over a large volume of livestock loans from operating and closed banks, and the following year began making livestock loans direct to the owners, taking a chattel mortgage on the animals. These loans are payable in installments and have greatly aided the general diversification program which the Northwest has undertaken. During the five years that this loan plan has been functioning, the corporation has distributed $5,892,000 on direct livestock loans to 12,169 farmers. Repayments of $3,448,000 have been made and loans now in force amount to $2,443,000. To date, losses of only $24,346 have been charged off and charge-offs are made as soon as the first delinquency arises.

Group banking is designed to meet territorial problems of the same nature. New territory must necessarily develop largely on credit, and group banking can direct this credit upon a comprehensive program basis.

The collapse of farm values was but one of several factors with which the banks of the Northwest were confronted. In former years, there had been an annual influx of new capital into the territory represented by the investment of settlers, capital expenditures for development purposes of an industrial nature, and time deposits in the banks from outside the territory. Much money from distant points was in Northwestern banks attracted by the high rates of interest paid. This money rapidly melted away in withdrawals as interest rates declined.

As we have watched the situation develop in the Northwest, the factor of management in the rural banks has thrust itself more and more into the foreground. The well-managed bank whose officers were in a position to realize the changing conditions in the entire agricultural territory survived, where its less capably directed competitor encountered difficulties. On June 30, 1913, there were 2,928 banks in the district. Seven years after, on June 30, 1920, the total had reached 3,877.

New banks had sprung up like mushrooms after a rain. Prosperous farmers in scores of instances had moved to town and, attracted by the reported large earnings in the banking business, had enlisted the support of a few friends, applied for charters, and launched banks. But banks are more easily created than bankers. For a manager, they looked around and hired an assistant cashier or clerk from some near-by bank, prevailed upon a school-teacher to exchange professions, or brought in an ambitious son from the farm. In one instance the town bartender was made the bank manager. And everything went well as long as land was booming.

But that type of banking definitely has come to an end. No longer is the increase in land values the automatic debt satisfier that it was for generations. We are increasing our capital by working, saving, and careful investing; and banking for our territory requires able, alert, and trained intelligence.

I have cited these as the factors that brought about the banking crisis, but I do not want to leave you with the impression that our territory has suffered any permanent injury. The boom days have ended, but we are building a firmer, more stable, and better prosperity than ever before. The Northwest is on an earning and saving basis. Its bank deposits are again showing an upward trend, but this time we intend to fortify our capital and protect it with a stronger banking structure. In 1913 our banks had deposits of $755,000,000. They reached $1,855,000,000 in 1920, and a year later had declined to $1,512,000,000. On October 4, 1929, total deposits of all banks in the district were $1,678,205,000. The average deposit of the 2,350 banks in the district is greater than ever before.

Our agricultural areas are being revolutionized. Single cropping has given way to a widely diversified agriculture. Our cities are growing and prospering, and our people are looking forward confidently to material prosperity. But the rural banking situation remains as a severe handicap.

The Comptroller of the Currency in his recent report summed up the existing situation in these words, upon which I can not improve:

" Whereas a depositor in a large city bank, whether a wage earner or a business man, has had full protection, the depositor in the small country bank has suffered severely from the inability of so many banks to meet their deposit liabilities.

" It is a cause for immediate concern that the operating conditions faced by country banks show no prospect of improvement under the present system. There are many country banks now operating at a loss and many others operating upon earnings insufficient to justify their capital investment.

" Comprehensive study of the banking situation for the past nine years clearly indicates that the system of banking in rural communities has broken down through causes beyond control of the individual banker of the local community."

It was to remedy this situation that group banking developed out of the Twin Cities.

For generations the larger banks of Minneapolis and St. Paul have been territorial banks of approximately the same region now included in the reserve district. They were the depositories of the railroads, the mills, the manufacturing plants, the jobbing houses, the line elevator companies and lumber yards, drawing from and servicing the territory as a whole. They were also the reserve depositories and rediscount correspondents of the country banks in the district. In a major way the final financial responsibility for the vast section extending from the Great Lakes to the Rocky Mountains was theirs. Although their relations with the country banks of the district were primarily those of banker and customer, when the agricultural crisis arose the burden of sustaining the entire fabric was thrust upon the Twin City banks. It is more than simply circumstance that the best and most liquid paper of many of the correspondent institutions was held by the larger banks as rediscount collateral. At once this collateral became essential to the stability of the rural units caught by the deflation, and the large depositories found the fate of many of their customer banks their responsibility. Exercising this responsibility became a matter of management—their own treasuries must be protected, their customer banks must be saved wherever possible.

This cooperation of the large commercial and reserve deposit banks undoubtedly saved many of their smaller correspondents. Aid of the War Finance Corporation was enlisted and through it much of the rediscount collateral was released and liquidated and the proceeds returned to the original holders. But in too many instances the combined efforts of all agencies could not avert failures.

In reaching our decision to embark upon the group-banking program we were prompted solely by the necessity of some form of practical reorganization of the rural banking structure, if the territory as whole was to recover from the effects of the farm deflation. The soundness and adequacy of the banking facilities of the district are vital and we who are residents of the larger cities must expect the cities to develop and prosper only as the rest of the district grows and prospers.

To correct the situation, we felt that if we could create an advisory organization, properly manned and with sufficient banking experience to offer to individual units making up the chain expert advice and assistance in the management of their local banks that there would be no question of the benefits that would accrue.

The basic change in the nature of the investments of the rural banks has been great. The rural banker has had to turn to bonds and commercial paper, collateral investments of another type, with a proportion of his assets. In buying such investments he was dependent largely upon traveling securities salesmen who visited him periodically. Investment of his surplus funds beyond the needs of his local requirements can be much better handled centrally by highly experienced buyers purchasing in substantially larger quantities, and much more closely in contact with the securities market.

As far as the general operations of the banks are concerned, our plan provides for the retention in the local community of the strongest possible control over the affairs of the unit. Management remains in the hands of resident officers and local directors, the central office exercising its supervision through periodical reports of condition, regular examinations, and the adoption of proven standards.

By the creation of a group a wider diversification of risk and resources is accomplished than is possible in a single unit. The group includes not only a great variety of agricultural depositories but also many of the commercial banks of both the metropolitan and secondary cities. Seasonal needs of various industries vary widely, but each division has a period of peak load. The diversification existing behind each individual unit will enable it to meet more adequately the seasonal needs of its customers and district.

Its association with the central banks in the group will enable it to arrange credit facilities for its larger customers whose needs at times exceed the loan limitations of a local unit. The parent corporation, also, is in a position to increase the capital structure of any of its affiliates should local conditions warrant greater credit resources.

Chain banking—that is, a number of units under the same ownership, generally a single individual—is now new. These chains of rural banks have existed for generations, but the units have seldom stressed affiliation, preferring to maintain the fiction of local independence. The group plan is a departure from the older chains in that the group is created about one or more central institutions of established reputation. For instance, the First Bank Stock Corporation group is headed by the First Nationals of Minneapolis and St. Paul, the two largest banks in the ninth Federal reserve district, each with resources in excess of $100,000,000; the Metals Bank & Trust Co., of Butte, and the First National of Great Falls, the largest banks in Montana.

In establishing the group we have had to feel our way. Originally the First National Banks of Minneapolis and St. Paul organized the First Bank Stock Investment Co., the stock of the investment company being held by allied corporations of the two banks. In other words, it was a subsidiary holding company. Our first practice was to purchase a majority interest in banks seeking affiliation. After several months' operations we came to the conclusion that the holding company should be the parent corporation, and we amended our plan and created the First Bank Stock Corporation. The First Bank Stock Corporation now is a holding corporation for all the banks in the group, great and small. We now acquire, if possible, all the stock of the unit banks, with the exception of directors' qualifying shares, local investment interest being maintained by ownership of stock in the holding company.

This has the result that the corporation instead of individuals carry the stock liability for the member banks of the group. This, we believe, is one of our greatest contributions to the security and stability of the member banks. Legally the stockholder of a bank is subject to a double liability, but the parent corporation of a group has a factual liability for the maintenance of its units to a degree far beyond any legal requirements. If, through some disastrous happening, such as a serious conversion of a bank's funds, its structure should be impaired, the holding company must reestablish it from the central reserve of the group. It would be suicidal to permit any single unit in the group to fail, no matter what the cause.

The individual bank now is supported not only by its own capital and reserve structure but also by that of the corporation. The holding company's legal responsibility is no greater than was the individual stockholder's, but its moral liability goes to the nth power.

We are building up a double reserve, in the banks themselves, and a central reserve in the First Bank Stock Corporation. Actually, the entire capital and surplus of the corporation is a reserve of its units.

This group plan in practice affords the customer of the smallest, rural affiliate, the same degree of security that the great metropolitan banks provide their customers. It also meets the growing demand from the smaller centers that their financial agencies provide more intelligent and alert guidance in business and investment matters, and more favorable treatment as to interest rates, which have been high by comparison with the larger cities. We have established a major subsidiary which will operate through all the banks in the group and provide the residents of the smaller cities the same investment service that is maintained in connection with the banks of the Twin Cities. It is also our intention to expand the trust facilities of the smaller members, either in their own units or in cooperation with long-established trust companies which are members of the group.

Unquestionably the immediate result of the increased security that group banking affords will be the return to the local communities of considerable capital that has been sent away in recent years, to create a highly liquid reserve. The group plan, too, offers opportunity for the capable banker, no matter where situated, to demonstrate his ability, and provides a road for his advancement and progress.

We can expect that within a few years the farm mortgage will be restored as a liquid instrument. Upon what basis of valuation final stability will be reached no one can say, but once a stability is reached, agricultural areas will return to a normal credit basis. The group plan of banking should be able to speed the attainment of such stability and assist in restoring the farm mortgage to its rightful place in the credit scheme.

In adopting the group plan, we set up the only machinery that was available to us. Critics have alleged that it is but an evasion of the ban on branch banking. It is probably true branch banking might be more economical in some instances. Our operations to date have shown that there is a size and type of community which is too small to justify the maintenance of a separately capitalized and corporately staffed bank of its own and which the group can not enter with a unit bank. On the other hand, those towns want some form of banking convenience. A branch of a larger bank with perhaps a single officer in charge, could take care of them while the larger central bank would provide greater security and better service than the small, independent unit.

Banks in these small communities can not and do not earn sufficiently to justify their existence. And gentlemen, let me make this point with all the force that I command. A bank that does not make a profit is a highly dangerous institution in its community. Any commercial institution that is not endowed must earn to exist, and commercial banking is a business of small profit. It follows, therefore, that its profit must be certain.

Experience indicates that it takes exceptional management to enable a bank to earn sufficiently to justify its existence if it has deposits of less than $250,000 under a State charter, or less than $500,000 under a national charter.

In this connection it is interesting to note that 73 towns in Minnesota, with less than 100 population, have banks. In nine of these towns the total deposit is less than $50,000; 24 have deposits from $50,000 to $100,000; 19 from $100,000 to $150,000; 10 from $150,000 to $200,000; and five from $200,000 to $250,000. In communities of from 100 to 200 in population, five have deposits under $50,000; 36 from $51,000 to $100,000; 29 from $100,000 to $150,000; 19 from $150,000 to $200,000; and 12 from $200,000 to $250,000.

In towns of all sizes in Minnesota there are 55 with a total deposit less than $50,000, 71 from $51,000 to $100,000, 88 from $100,000 to $150,000, 95 from $150,000 to $200,000, and 16 from $200,000 to $250,000. This shows a total of 325 towns in the one State where the bank deposits are less than $250,000. At the same time, there are 145 towns which have no banking facilities whatsoever.

I am not prepared to suggest what areas from a standpoint of public policy should be included within a banch-banking zone. A central bank in a county seat town could conveniently have offices in the smaller centers within the county. On the other hand flow of trade is a matter of convenience and not governed by fixed county limitations. State branch banking or even reserve district limits would avoid conflict with already established routes and zones of trade.

I do believe, however, that the benefits of group banking should not be sacrificed. Group banking and branch banking could well go hand in hand, supplementing each other. The group plan offers distinct advantages at points sufficiently large to warrant the maintenance of a unit bank. It retains in the local community the benefits of local management, satisfying the very natural desire of the residents of the community that their bank be actually a home institution.

Then, too, there is a widespread public feeling that the branch bank is not as responsive to purely local needs as the home bank. This need not be true, but, the feeling is actual whether the premise is correct or not. The group plan obviates this criticism. An affiliated bank is as much a home institution after as before joining the group. The holding company is not a bank, and its success is dependent upon the growth and its success is dependent upon the growth and success of its units. Naturally it must look to the development of each affiliated bank wherever located for its own profit and assist in the development with every means at its command. To do otherwise would be contrary to its own self-interest. If the affiliated bank does not serve its community equally well or better than the independent unit we may expect competition to arise at the first opportunity. The group bank has no exclusive form of franchise, and we recognize that it must provide an improved service to exist.

The whole tendency of operation is diffusion rather than concentration around a central treasury.

We can foresee that if branch banking under certain limitations of area and boundary should be permitted that a number of the larger banks in the group could extend their service by the establishment of branches in near-by communities.

Although I can speak only for our own organization, I believe that group bankers generally would encourage the suggestion that the investigative powers of the national banking department be extended to the holding companies, and that these corporations should be subject to periodical examinations. We, in the banking business, know that searching examination is one of the real safeguards of sound practices and this would hold as true in the managing corporations as in the banks themselves.

In conclusion, may I add that the first objective of every bank must be service. This is not altruism, but simply sound business. Service means deposits and deposits mean profits. The prosperity of the community and the prosperity of its bank inevitably go hand in hand, and whatever increases the prosperity of the bank adds to the prosperity of the community which it serves.

The group system of banking is sound because it rests on these foundations:

First: Cooperation of resources.

Second. Diversification of resources.

Third. Ownership spread throughout the territory.

Fourth. Creation and management by bankers.

Grain crops of Minnesota, North Dakota, South Dakota, and Montana

Year	Wheat	Corn	Oats	Barley	Rye	Flax
1911	131, 935, 000	132, 210, 000	129, 840, 000	54, 008, 000	5, 216, 000	-------------
1912	263, 043, 000	163, 282, 000	270, 245, 000	100, 242, 000	7, 202, 000	21, 530, 000
1913	179, 160, 000	174, 120, 000	212, 640, 000	77, 065, 000	8, 160, 000	13, 410, 000
1914	154, 192, 000	183, 000, 000	194, 189, 000	79, 519, 000	8, 505, 000	12, 302, 000
1915	322, 977, 000	168, 110, 000	336, 025, 000	112, 695, 000	10, 530, 000	13, 324, 000
1916	120, 360, 000	183, 860, 000	223, 367, 000	74, 251, 000	14, 385, 000	12, 870, 000
1917	183, 952, 000	193, 472, 000	237, 925, 000	88, 482, 000	23, 179, 000	7, 999, 000
1918	277, 459, 000	229, 494, 000	299, 714, 000	123, 895, 000	39, 712, 000	14, 196, 000
1919	140, 189, 000	228, 416, 000	196, 283, 000	46, 140, 000	28, 993, 000	6, 895, 000
1920	164, 022, 000	248, 682, 000	286, 429, 000	68, 757, 000	21, 786, 000	10, 331, 000
1921	163, 098, 000	303, 412, 000	221, 404, 000	55, 266, 000	25, 785, 000	7, 732, 000
1922	231, 876, 000	268, 335, 000	317, 070, 000	72, 229, 000	63, 374, 000	10, 089, 000
1923	156, 450, 000	337, 565, 000	310, 869, 000	68, 628, 000	27, 820, 000	16, 671, 000
1924	278, 269, 000	262, 543, 000	407, 2[illegible]8, 000	91, 378, 000	39, 788, 000	30, 890, 000
1925	209, 503, 000	258, 661, 000	373, 866, 000	98, 976, 000	24, 376, 000	21, 795, 000
1926	158, 247, 000	253, 113, 000	203, 449, 000	65, 183, 000	17, 150, 000	18, 690, 000
1927	276, 710, 000	293, 384, 000	260, 823, 000	128, 641, 000	35, 256, 000	25, 201, 000
1928	278, 642, 000	266, 596, 000	292, 724, 000	157, 613, 000	22, 274, 000	18, 709, 000

Farm land valuations—Minnesota, North Dakota, South Dakota, and Montana, from circular No. 101, December, 1929, Department of Agriculture

[1912 to 1914—100 per cent]

	1912 to 1914	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	192.	1927	1928	1929	
Minnesota	100	122	138	155	167	213	212	187	177	170	159	155	145	140	138	−2
North Dakota	100	112	118	124	130	145	141	136	128	114	109	105	100	99	98	−1
South Dakota	100	108	116	126	145	181	173	146	126	117	115	107	97	96	95	−1
Montana	100	94	100	106	114	126	105	96	87	81	75	72	70	71	72	+2

Sales of farms for delinquencies, Minnesota, North and South Dakota, Montana

NUMBER OF FARMS PER 1,000 CHANGING OWNERSHIP DUE TO MORTGAGE FORECLOSURES, DELINQUENT TAX SALES, BANKRUPTCIES, ETC.

	Default sales				Total sales				Per cent of default to all sales			
	1926	1927	1928	1929	1926	1927	1928	1929	1926	1927	1928	1929
United States average	21. 6	23. 3	22. 8	19. 4	61. 4	68. 5	66. 0	57. 9	35. 1	34. 0	34. 5	33. 5
Minnesota	30. 6	29. 2	31. 9	30. 1	57. 9	61. 4	62. 4	58. 5	52. 8	47. 9	51. 1	51. 4
North Dakota	59. 0	61. 1	55. 9	37. 7	91. 8	97. 6	98. 5	80. 2	64. 2	62. 6	56. 7	47. 0
South Dakota	66. 1	66. 1	57. 9	35. 0	93. 0	101. 7	99. 6	71. 8	71. 0	64. 9	58. 1	48. 7
Montana	70. 9	69. 0	56. 4	39. 2	108. 5	117. 6	114. 0	104. 1	65. 3	58. 6	49. 4	37. 6

ESTIMATED NUMBER OF FARMS AND ACREAGE SOLD UNDER DEFAULT. FOUR YEARS—1926, 1927, 1928, AND 1929

	Farms	Acreage
Minnesota	22, 898	3, 663, 680
North Dakota	16, 241	7, 341, 002
South Dakota	17, 895	7, 193, 970
Montana	10, 833	7, 621, 434
	67, 867	25, 820, 086

Range of wheat prices, Minneapolis Chamber of Commerce highest cash grade

	January	February	March	April	May	June
1917	1.82 -2.02⅞	1.73⅞-1.99	1.93⅞-2.12	2.11 -2.90	2.67½-3.54	2.32½-3.25
1918	2.23½	2.23½	2.23½	2.23½	2.23½	2.23½
1919	2.23½-2.28	2.23½-2.34	2.23½-2.53	2.50 -2.92	2.55 -2.83	2.44 -2.62
1920	2.80 -3.50	2.60 -3.10	2.65 -3.25	2.90 -3.35	2.85 -3.45	[2] 2.75 -3.25
1921	1.64¼-1.95¼	1.55¾-1.78⅞	1.53⅝-1.79⅜	1.34¼-1.64½	1.41¼-1.76½	1.34½-1.83½
1922	1.20⅞-1.41⅜	1.37 -1.63⅞	1.44⅛-1.62⅞	1.50¼-1.73⅞	1.47⅝-1.71¾	1.35¼-1.60¼
1923	1.16½-1.43⅝	1.18 -1.42¾	1.18⅝-1.41½	1.21⅞-1.51	1.16¾-1.45	1.05⅜-1.38¾
1924	1.12¾-1.36⅞	1.14¼-1.31¼	1.10¾-1.33⅛	1.11⅛-1.31½	1.12¾-1.35¾	1.11¾-1.51⅜
1925	1.71 -2.26⅜	1.70¼-2.22	1.40 -2.22	1.34 -1.86¾	1.54¼-1.90	1.49⅛-1.87¼
1926	1.67⅛-1.96¼	1.60⅛-1.88½	1.53¾-1.78⅞	1.54⅞-1.76⅛	1.57⅜-1.71	1.55¾-1.78
1927	1.40⅜-1.50	1.38⅞-1.49¾	1.30⅞-1.48⅞	1.33¼-1.46⅜	1.38⅛-1.65½	1.41½-1.65
1928	1.34½-1.75	1.31½-1.77⅞	1.38¾-1.81⅝	1.43½-2.13⅞	1.49¼-2.09⅞	1.43 -1.84

	July	August	September	October	November	December
1917	2.38½-3.00	2.30 -3.05	[1] 2.21	[1] 2.21	2.21	2.21
1918	2.23½-2.40	2.23½-2.26	2.23½-2.25½	2.23½-2.24½	2.23½-2.25½	2.23½-2.25
1919	2.57 -3.05	2.40 -3.00	2.45 -3.00	2.65 -2.95	2.75 -3.20	3.00 -3.40
1920	[2] 2.40 -3.10	2.30 -2.95	2.35½-2.75½	2.00½-2.36	1.49⅜-2.18	1.57 -1.85⅛
1921	1.29 -1.92	1.34¼-1.70¾	1.40½-1.60¼	1.22 -1.45⅛	1.19¼-1.40⅝	1.21 -1.36½
1922	1.32⅞-1.59⅞	1.06½-1.44⅛	1.06 -1.20⅜	1.06⅜-1.22⅜	1.15 -1.30½	1.16½-1.34⅞
1923	1.01⅜-1.37	1.09⅜-1.34⅜	1.13⅝-1.33¼	1.14 -1.30⅜	1.09⅛-1.27¼	1.07¾-1.25½
1924	1.22⅛-1.61	1.28 -1.56⅝	1.26⅞-1.58¾	1.37⅞-1.69⅞	1.37⅛-1.75¾	1.53⅛-2.07
1925	1.48 -1.85⅜	1.53¼-1.84⅞	1.35⅝-1.74⅜	1.35⅝-1.78	1.47¼-1.81	1.59⅝-1.95¾
1926	1.61⅝-1.92¼	1.41⅝-1.69⅝	1.39 -1.56⅞	1.42½-1.58⅜	1.37½-1.52	1.41¼-1.50
1927	1.40⅜-1.64	1.37¾-1.65½	1.30¾-1.38½	1.23 -1.56	1.24½-1.59¾	1.28 -1.66¾
1928	1.27½-1.80	1.07½-1.52½	1.07⅛-1.44½	1.06⅞-1.35¾	1.07⅞-1.37¼	1.07½-1.36

[1] Government prices started.
[2] Fixed prices expired.

Mr. Wakefield. In 1913 the total banking resources in our district were $755,000,000. In 1920 they were $1,855,000,000, and a year later had declined to $1,512,000,000.

I mention that because at the present time our banking resources are again on the increase, and because I want it distinctly understood that, in spite of all of the statements which I will make here of the difficulties and disasters which we have experienced, we still have a fairly sound and coming section of the country. Fundamentally and basically there is not any better part of the United States than the ninth Federal reserve district. Everything is there to grow and to build with, and if we can find a satisfactory method of stopping these calamities which have been with us these years, I am sure it will not take very long for us to be again on the upgrade.

There are remaining now about 2,300 banks in the ninth Federal reserve district. In making this statement I want the committee to know that the institutions around which the First Bank Stock Corporation was built are the First National Bank of St. Paul and the First National Bank of Minneapolis, each institution with approximately $100,000,000 of deposits, both old banks which have been in existence since 1868, and that those banks have had and now have as their customers a great many hundreds of small unit banks of the district, and that our desire and our efforts are and have been devoted to supporting the small unit banks in every manner possible. They to-day are our customers, and these things we are undertaking to do we would not permit to interfere with their business in any manner possible, because they are entitled to every possible help and support.

As Mr. Decker told you yesterday, during the years 1921 and 1922 the Twin Cities banks wene into the Federal reserve bank for the maximum amount practically that they could borrow and turned around and furnished that money to the small unit banks in the territory in an effort to carry them through the extreme difficulties of that time.

Now, I think that the officials of the Twin Cities banks, the Northwestern National, the First St. Paul, the First National of Minneapolis, undoubtedly saved a great many possible closings that may have taken place if they were not there ready and willing to help and assist those small banks.

In reaching our decision to go into the group banking business, it was based upon these factors:

This thing has been discussed over several years in our territory—we felt, because of the realization that, with the experience that we have had, our territory must continue to be in a depressed and unsatisfactory situation until the time came when there were banking facilities of the right character provided over the territory, and we have studied that and worked on it.

Mr. Decker and the Northwestern National people were the first to conclude to undertake a movement of this kind. We were all reluctant to do it. I do not think any of us who were engaged in the banking business in the Twin Cities were anxious to assume the responsibility and set out and become interested in the banking situation over the entire territory. So we moved rather slowly.

My own associates, at first, felt we would involve ourselves in exactly the same undertaking, but that we could do identically the same thing without forming a group tied down to the First National Banks of St. Paul and Minneapolis.

So, we undertook to handle it in a different way, and this statement will verify what Mr. Decker said yesterday about the attitude of the banks in the territory. We undertook to form a separate corporation, controlled by the First National Bank of Minneapolis and the First National Bank of St. Paul and, through it, go into the various communities and acquire a controlling interest in various banks. We undertook that operation over a period of about six months—long enough to discover that the people out in the territory absolutely were not interested in selling a control of their bank, nor were they willing to sell it entirely, but they were very anxious to have us form the same type of organization as the Northwest Banking Corporation put into effect, in an undertaking looking toward the straightening up and carrying on of the banking business of the territory.

So, a few months later, we changed our plan and adopted identically the same plan as used by the Northwest Banking Corporation and, at that time, we exchanged the capital stock of the First National Bank of St. Paul, the First National Bank of Minneapolis, and the Metals Bank & Trust Co. of Butte, Mont., and the First National of Great Falls, Mont., and the Western Montana Bank of Missoula. They formed our original group.

We got together with the different interests involved, agreed upon a basis of capitalization and incorporation, and made an exchange of stock with those particular banks and, from that time, have been adding additional banks through the exchange of stock as opportunity offers, and it seemed desirable to do so until, at the present time, we have a group, a statement of which each one of you has before you.

Now, our plan provides for retaining the local management and local directors in exactly the same manner as described yesterday.

At this point I am going to file some information, because I want to give certain information at this time and have already mentioned this list. In the questionnaire which came from Mr. McFadden he asked for certain information. First, we were asked for a copy of the charter, date of organization, and by-laws.

I have a copy of the charter which is attached here, and which I will offer at this time for the record.

Then, there is requested a list of the directors of our holding company, showing the practical business occupation of each, which is in this pamphlet which I am filing also.

Then the number, name, location, capital, surplus, deposits, and resources of each bank acquired, showing which are national, which are State members of the Federal reserve system, and which are nonmembers.

Then a list by name and capital structure of each corporation other than banks, the majority of the stock of which is owned by our holding company. That is contained in the pamphlet. [Reading:]

State fully the method of acquiring a bank, whether by cash, purchase of stock or by exchange of stock, and the method of negotiation.

Now, I have a statement here, attached to this [exhibiting], which I will file, but which I will read at this time, because it describes the method.

We have acquired controlling interest in the various banks and corporations comprising our group in the following manner:

(a) By purchase of their stock for cash.
(b) By incorporating new banks, and paying in the capital in cash.
(c) By exchanging stock of this corporation for stock of the banks.
(d) By a combination of (a) and (c).

In some cases we have solicited the affiliation, but in a large majority of cases we have been approached by the banks themselves. In every case a very thorough examination is made before the purchase is completed, and all undesirable assets are either removed from the bank or insured by adequate guaranty. In some cases where undesirable assets are removed, the accepted assets are guaranteed by deposit of a portion of our stock, given to them in exchange for theirs. We require all depositing stockholders to guarantee the validity of their stock, and also require them to sign a guaranty protecting us against any liabilities of the bank existing on the date on which the deal is closed, and now shown on the balance sheet. The number of shares of our stock given in exchange for the stock of affiliating bank or corporation is determined both by the amount of net capital assets which we require, and by the earning power of the bank or corporation over a period of years.

The methods are similar to those described by Mr. Decker yesterday.

The capital structure of the First Bank Stock Corporation is composed solely of fully paid and nonassessable shares of the par value of $25 per share of our capital stock. There was outstanding on December 31 a total of 3,016,870.57 shares of this stock with a par value of $75,421,764.39.

The stockholders are distributed geographically as follows: Minneapolis, 6,753 stockholders; St. Paul, 2,345 stockholders; Minnesota (outside of Twin Cities), 3,201 stockholders; Michigan, 383 stockholders; Montana, 987 stockholders; North Dakota, 892 stockholders; South Dakota, 516 stockholders; Wisconsin, 446 stockholders; other States, 596 stockholders or a total of 16,119 stockholders.

With the exception of 200,000 shares sold through First Minneapolis Co. and First St. Paul Co. to the general public at $47.50 per share, and 32,000 shares sold to officers and employees of the corporations affiliated with First Bank Stock Corporation at $42.50 per share, all of the stock has been issued in exchange for the stock of banks and corporations now affiliated with us, and no attempt has been made to otherwise control its distribution.

I will file that statement.

Mr. STRONG. Without objection it is received.

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

CERTIFICATE OF INCORPORATION OF FIRST BANK STOCK CORPORATION AS AMENDED, NOVEMBER 5, 1929

First. The name of this corporation is First Bank Stock Corporation.

Second. Its principal office in the State of Delaware is to be located at 900 Market Street, in the city of Wilmington, county of New Castle, and the name and address of its resident agent is Corporation Service Co., 900 Market Street, Wilmington, Del.

Third. The nature of the business and the objects and purposes to be transacted, promoted, and carried on are to do any or all of the things hereinafter mentioned as fully and to the same extent as natural persons might or could do, viz:

(*a*) To subscribe for or cause to be subscribed for, buy, own, hold, receive, acquire, sell, assign, transfer, hypothecate, pledge, or otherwise deal in, handle, or dispose of the bonds, stocks, and other securities or evidences of indebtedness created or issued by any bank or by any other corporation or corporations, partnerships, individuals, associations, whether public, private, or municipal, or any corporate body or by any government; and while the owner thereof to possess and to exercise in respect thereof all the rights, powers and privileges of ownership, including the right to vote thereon, and the right to transfer the said securities to one or more persons, firms, or corporations, subject to voting trusts or other agreements placing in them the voting power of said securities; to guarantee the payment of principal of and/or interest upon any bonds or other evidences of indebtedness; and to guarantee the payment of dividends on any of the above-mentioned securities issued by corporations or associations in which this corporation may at any time have an interest and to guarantee the performance of any contract by, or otherwise aid in any manner, any other corporation or association in which this corporation shall at any time have an interest.

(*b*) To loan money upon security or otherwise, either for itself or as agent for others.

(*c*) To organize, incorporate, reorganize, merge, consolidate, and finance banks, companies, corporations, joint-stock companies, syndicates, and associations of all kinds engaged or to engage in any lawful kind of business, and to underwrite, subscribe for, and indorse the bonds, stocks, securities, debentures, notes, or undertakings of any such companies, corporations, joint-stock companies, syndicates, and associations, and to make any guarantee in connection therewith or otherwise for the payment of money or for the performance of any obligation or undertaking, and to do any and all things necessary or convenient to carry any of such purposes into effect.

(*d*) To purchase, lease, or otherwise take, hold, sell, exchange, transfer, repair, maintain, improve, mortgage and in any other manner deal in and deal with real property, mixed and personal property, wherever situate, whether within or without the State of Delaware.

(*e*) To acquire the good will, rights, and property, and to take over the whole or part of the assets and liabilities of any person, firm, association, or corporation, and to pay for the same in cash, the stock of this corporation, bonds, or otherwise; to hold or in any manner dispose of the whole or any part of the property so acquired; and to conduct in any lawful manner the whole or any part of the business and property so acquired, and to exercise all the powers necessary or convenient in and about the conduct and management of such business.

(*f*) To purchase or otherwise acquire, hold, use, sell, and in any manner dispose of and deal in patents, inventions, improvements, processes, trademarks, trade names, rights, and licenses secured under letters patent, copyrights or otherwise, and to grant licenses or other rights therein.

(*g*) To enter into, make, and perform contracts of any and every kind for any lawful purpose, without limits as to amount, with any person, firm, association or corporation, municipality, county, State, Territory, or government.

(*h*) To borrow or raise moneys for any of the purposes of this corporation, and from time to time, without limit as to amount, draw, make, accept, indorse, execute, and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, and other negotiable or nonnegotiable instruments and evidences of indebtedness, secure the payments thereof and of the interest thereon by mortgage upon, or pledge, or conveyance, or assignment in trust of, the whole or any part of the property of this corporation, real or personal, including contract rights, whether at the time owner or thereafter acquired, and sell, pledge, or otherwise dispose of such bonds or other obligations of this corporation for its corporate purposes.

(*i*) To purchase, hold, and reissue the shares of capital stock, provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital, and, further, that shares of its own capital stock belonging to it shall not be voted directly or indirectly.

(*j*) To carry on any and all of its operations and business and to promote its objects within the State of Delaware and elsewhere without restrictions as to place or amount.

(*k*) To do any or all of the things set forth to the same extent as natural persons might or could do, and in any part of the world, as principals, agents, contractors, trustees, or otherwise, alone or in company with others.

The foregoing clauses shall be construed both as objects and powers, and it is hereby expressly provided that the foregoing enumeration of specific powers is in furtherance of and in addition to, and not in limitation of, the general powers conferred by the laws of the State of Delaware.

Fourth. The total authorized capital stock of this corporation is 10,000,000 shares of the par value of $25 each. Shares of the capital stock of this corporation may be issued by the corporation from time to time for such consideration, not less than the par value thereof, as may be fixed from time to time by the board of directors.

At all meetings of the stockholders of this corporation each stockholder shall be entitled to one vote for each share of capital stock held by him.

The holders of the capital stock of this corporation shall have the preemptive right to purchase shares of the capital stock of the corporation now or hereafter authorized which may from time to time be issued and sold save and except that an aggregate of 500,000 shares of the corporation may be issued for cash without offering the same to the holders of capital stock pro rata for subscription and that any stock of the corporation may be issued and exchanged for stock of any bank, banking association, trust company or other corporation of whatsoever nature, without so offering the same to the holders of capital stock.

Fifth: The minimum amount of capital with which it will commence business, is $1,000.

Sixth: The name and place of residence of each of the incorporators are as follows: S. J. Mackey, Wilmington, Delaware; J. Skrivan, Wilmington, Delaware; H. Kennedy, Wilmington, Delaware.

Seventh: The existence of this corporation is to be perpetual.

Eighth: The private property of the stockholders of this corporation shall not be subject to the payment of corporate debts to any extent whatever.

Ninth: The number of directors of this corporation shall be fixed and may be altered from time to time as may be provided in the by-laws. In case of any increase in the number of directors, the additional directors may be elected by the board of directors to hold office until the next annual meeting of the stockholders and until their successors are elected and qualified. In case of vacancies in the board of directors, the remaining directors may elect directors to fill such vacancies. Directors of this corporation need not be stockholders therein and need not be elected by ballot.

Tenth: In furtherance and not in limitation of the power conferred by statute, the board of directors is expressly authorized:

(*a*) To fix, determine, and vary from time to time the amount to be maintained as surplus and the amount or amounts to be set apart as working capital.

(*b*) To adopt, amend, alter, change, add to or repeal by-laws of this corporation, without any action on the part of the stockholders. The by-laws adopted by the directors may be amended, altered, changed, added to or repealed by the stockholders.

(*c*) By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of two (2) or more of the directors of the corporation, which committees shall have and exercise (except when the board of directors shall be in session) such powers and rights of the board of directors in the management of the business and affairs of the corporation as may be provided in the by-laws or in said resolution, and shall have power to authorize the seal of this corporation to be affixed to all papers which may require it.

(*d*) To authorize and cause to be executed mortgages and liens, without limit as to amount, upon the real and personal property of this corporation.

(*e*) From time to time to determine whether and to what extent, at what time and place, and under what conditions and regulations the accounts and books of this corporation, or any of them, shall be open to the inspection of any stockholder; and no stockholder shall have any right to inspect any account, books, or document of this corporation except as conferred by statute or by the by-laws, or as authorized by a resolution of the stockholders or board of directors.

(*f*) To sell, assign, convey, or otherwise dispose of a part of the property, assets, and effects of this corporation, less than the whole, or less than substantially the whole thereof, on such terms and conditions as they shall deem advisable, without the assent of the stockholders in writing or otherwise; and also to sell, assign, transfer, convey, and otherwise dispose of the whole or substantially the whole of the property, assets, effects, franchises, and good will of this corporation on such terms and conditions as they shall deem advisable, but only with the written consent or pursuant to the affirmative vote of the holders of a majority in amount of the stock then having voting power and at the time issued and outstanding, but in any event not less than the amount required by law.

(*g*) All of the powers of this corporation, in so far as the same lawfully may be vested by this certificate in the board of directors, are hereby conferred upon the board of directors of this corporation.

Eleventh. In the absence of fraud, no contract or transaction between this corporation and any other association or corporation shall be affected by the fact that any of the directors or officers of this corporation are interested in or are directors or officers of such other association or corporation, and any director or officer of this corporation individually may be a party to, or may be interested in, any such contract or transaction of this corporation; and no such contract or transaction of this corporation with any person or persons, firm, association, or corporation shall be affected by the fact that any director or officer of this corporation is a party to, or interested in, such contract or transaction, or in any way connected with such person or persons, firm, association, or corporation; and each and every person who may become a director or officer of this corporation is hereby relieved from any liability that might otherwise exist from thus contracting with this corporation for the benefit of himself or any person, firm, association, or corporation in which he may be in any way interested: *Provided, however*, That in any such case the fact of such interests shall be disclosed to the other directors or stockholders acting upon or in reference to such contract or transaction.

Twelfth. This corporation may in its by-laws make any other provisions or requirements for the management or conduct of the business of this corporation, provided the same be not inconsistent with the provisions of this certificate or contrary to the laws of the State of Delaware, or of the United States.

Thirteenth. This corporation reserves the right to amend, alter, change, add to, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon officers, directors, and stockholders herein are granted subject to this reservation.

We, the undersigned, being all of the incorporators for the purpose of forming a corporation, in pursuance of an act of the Legislature of the State of Delaware entitled "An act providing a general corporation law" (approved March 10, 1899), and the act amendatory thereof and supplemental thereto, do make and file this certificate of incorporation, hereby declaring and certifying that the facts herein stated are true and accordingly hereunto have set our respective hands and seals this 1st day of April, A. D. 1929.

S. L. MACKEY. [SEAL.]
J. SKRIVAN. [SEAL.]
H. KENNEDY. [SEAL.]

In the presence of:
JOHN W. GAILEY.

BY-LAWS OF FIRST BANK STOCK CORPORATION AS AMENDED

ARTICLE I

SECTION 1. The principal office of the corporation in Delaware shall be in Wilmington, and the resident agent in charge thereof shall be Corporation Service Co.

The corporation may also have offices in the cities of Minneapolis and St. Paul, in the State of Minnesota, and at such other places as the board of directors may from time to time designate.

SEC. 2. The corporate seal shall be circular in form and have inscribed thereon the name of the corporation, the year of its incorporation (1929) and the words "Corporate Seal, Delaware."

ARTICLE II, STOCKHOLDERS

SECTION 1. The annual meeting of the stockholders of the corporation, beginning with the year 1930, shall be held at its office in Minneapolis or at its office in St. Paul as may be determined by the executive committee and stated in the notice of said meeting mailed to the stockholders, on the first Tuesday of January of each year at 3 o'clock p. m. (or if said day be a legal holiday, then on the next succeeding day not a holiday), at which meeting the stockholders shall elect by ballot by plurality vote a board of directors consisting of not less than 50 nor more than 150 members. Each stockholder shall be entitled to one vote in person or by proxy for each share of stock held by him.

No change of the time or place of a meeting for the election of directors, as fixed by the by-laws, shall be made within 60 days next before the day on which such election is to be held.

SEC. 2. A complete list of stockholders entitled to vote, arranged in alphabetical order, shall be prepared by the secretary and shall be open to examination by any stockholder at the place of election for 20 days prior thereto and during the whole time of election.

SEC. 3. Special meetings of stockholders may be called by the chairman of the board of directors of the president and shall be called on the request in writing of any three directors, or on the request in writing of stockholders of record owning not less than one-fourth of the capital stock outstanding which call or request shall in each case specify the purpose of the meeting so called or requested. The notice of such meeting shall in general terms state the purpose of such meeting and no business shall be transacted thereat except as stated in the notice thereof. Any such meeting may be held at such place within or without the State of Delaware as may be fixed by the board of directors, or by the executive committee, or the chairman of the board or the president, and as may be stated in the notice of such meeting.

SEC. 4. Notices of all meetings shall be mailed by the secretary to each stockholder of record at his last known post-office address as the same appears on the books of the corporation. Notices of annual meeting shall be mailed 10 days prior to the date thereof, and notices of special meetings shall be mailed 5 days prior to the date thereof.

SEC. 5. At any annual or special meeting of the stockholders, a majority of the shares of capital stock of the corporation then outstanding, represented by the owners thereof or by their proxies duly authorized in writing, shall constitute a quorum for the transaction of business.

Any meeting of the stockholders at which a majority of the capital stock then outstanding is not so represented, shall be adjourned from time to time, not exceeding 30 days in any one adjournment, until a majority of the stock is so represented, and at any adjourned meeting of the stockholders, a quorum being present, any and all business may be transacted which might have been transacted at the original meeting and with the same force and effect, and at any such adjourned meeting, proxies intended for use at the meeting originally called shall be valid unless such proxies otherwise provide.

SEC. 6. The chairman of the board of directors or the president shall, in the order named, preside over all meetings of stockholders, and if neither of such officers be present, then the chairman of the meeting shall be elected by plurality vote of the stockholders.

SEC. 7. The board of directors may close the stock transfer books of the corporation for a period not exceeding 20 days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of stock shall go into effect; or, in lieu of closing the stock transfer books, the board of directors may fix in advance a date, not exceeding 20 days preceding the date of any meeting of stockholders or the date for the payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of stock shall go into effect, as a record date for the determination of the stockholders entitled to notice of and to vote at any such meeting, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise their rights in respect of any such change, conversion or exchange of stock, and in such case only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of and to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

ARTICLE III

SECTION 1. The board of directors of the corporation shall consist of such number of directors as may be elected by the stockholders or board of directors from time to time, such number, however, to be not less than 50 nor more than 150. The directors shall hold office until the next annual election and until their successors are elected and qualify. The board of directors may at any time, and from time to time, elect directors to fill vacancies among their number in any manner arising and, within the limits as to numbers above set forth, may at any time, and from time to time, elect additional directors. A quorum of the board of directors shall at all times consist of the smallest number of directors permitted by law to constitute a quorum, i. e.. one-third of the number of persons who shall at any given time be directors. Directors need not be stockholders.

SEC. 2. Meetings of the board of directors shall be held at such place, within or without the State of Delaware, as may from time to time be fixed by resolution of the board or as may be specified in the call of any meeting. Regular meetings of the board of directors shall be held at such times and at such places as may from time to time be fixed by resolution of the board and special meetings may be held at any time upon the call of the executive committee, the chairman of the board of directors, or the president, by oral, telegraphic, or written notice duly given, sent, or mailed to each director not less than two days before the meeting. A meeting of the board may be held without notice immediately following the annual meeting of the stockholders at the same place at which such meeting is held. Notice need not be given of regular meetings of the board held at times fixed by resolution of the board.

SEC. 3. The board of directors may, by resolution or resolutions, passed by a majority of the whole board, designate an executive committee to consist of not less than 6 nor more than 15 directors, as the board may from time to time determine. In addition to the members designated by the board, the president of the corporation shall at all time ex-officio be a member of the executive committee. The executive committee shall have and may exercise, when the board is not in session, all the powers of the board of directors in the management of the business and affairs of the corporation and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it, but the executive committee shall not have power to elect members of the board of directors or to change the membership of, or to fill vacancies in the executive committee or to make or amend by-laws of the corporation. In addition to the foregoing powers and without in any manner limiting the same, the executive committee is hereby specifically granted the following powers:

(*a*) To issue shares of the capital stock of the corporation and within the limitations set forth in the certificate of incorporation to offer shares of the capital stock of the corporation for sale pro rata to the stockholders of the corporation or otherwise as the executive committee may from time to time determine, and to offer shares of the capital stock of the corporation in exchange for shares of stock of any bank, banking association, trust company, or other corporation of whatsoever nature on such basis as the executive committee may from time to time determine.

(*b*) To declare dividends upon the capital stock of the corporation and to set aside such reserves as the executive committee may determine advisable.

(*c*) To borrow money and to secure the repayment of the same by pledge or mortgage of any or all of the assets of the corporation.

(*d*) To determine the terms and conditions upon which the stockholders may examine the books of the corporation and the extent of such examination.

(*e*) To sell a part of the assets of the corporation less than the whole or less than substantially the whole thereof.

(*f*) To direct the closing of the books for the transfer of shares of the capital stock of the corporation and to fix record dates for determination of stockholders entitled to vote at meetings of the stockholders of the corporation, or to receive dividends upon the capital stock of the corporation, or to receive rights to purchase additional shares of the capital stock of the corporation, or for any other purpose.

(*g*) To purchase property of any sort or description for the use of the corporation.

(*h*) To appoint officers of the corporation, excepting only the chairman of the board of directors, the president, and the vice presidents, and to determine the salary and compensation of all of the officers of the corporation.

(*i*) To authorize the signing of checks, notes, contracts, and other instruments for and on behalf of the corporation.

(*j*) To propose and declare advisable amendments to the certificate of incorporation of the corporation and to call meetings of the stockholders to consider the same.

(*k*) To authorize the purchase by the corporation of shares of its capital stock.

(*l*) To fix the amount of or to waive a bond upon the issuance of certificates of stock in lieu of lost, destroyed, or stolen certificates.

(*m*) To change the principal office of the corporation and the resident agent in charge thereof.

(*n*) To authorize the issuance of scrip of the corporation in lieu of the fractional shares and to determine the date upon which such scrip shall be and become void.

(*o*) To make application to the New York Stock Exchange and/or the Chicago Stock Exchange for the listing thereon of the shares of the capital stock of the corporation and to execute any and all instruments, and do all acts and things necessary or proper in order to cause said shares so to be listed, including the appointment of New York and/or Chicago transfer agents and registrars.

(*p*) To appoint proxies and attorneys in fact for the corporation to vote upon shares of stock of any bank or other corporation owned by this corporation at meetings of stockholders of such bank or other corporation.

The board shall have the power at any time to change the membership of the executive committee, to fill existing vacancies in its membership, or to dissolve it. The executive committee may make rules for the conduct of its business and may appoint such committees or assistants as it shall from time to time deem necessary. Five members of the executive committee shall constitute a quorum but any less number thereof may adjourn. While the members of the executive committee shall act only as a committee and the individual members shall have no power as such, still it shall not be essential that said committee act only in meeting but any action taken with the written consent of all members of the executive committee shall be as valid and effectual as though formally taken at a meeting of said executive committee.

SEC. 4. The board of directors may also, by resolution or resolutions passed by a majority of the whole board, designate one or more other committees, each of such committees to consist of two or more of the directors of the corporation which, to the extent provided in said resolution or resolutions, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and shall have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. A majority of the members of any such committee may determine its action and fix the time and place of its meetings, unless the board of directors shall otherwise provide. The board of directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee.

ARTICLE IV

SECTION 1. The board of directors, as soon as may be after the annual election in each year, shall choose a chairman of the board of directors, a president and two or more vice presidents, to serve until the next annual meeting of the directors and until their successors shall be elected and shall qualify. The board of directors shall also appoint a secretary and treasurer and such other officers, agents, and employees as it may deem proper, who shall serve during the pleasure of the board of directors. The office of secretary and treasurer may be held by the same person and a vice president of the corporation may also be either the secretary or treasurer. The chairman of the board of directors and the president shall be chosen from among the directors.

SEC. 2. Subject to such limitations as the board of directors or the executive committee may from time to time prescribe, the officers of the corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as may from time to time be conferred by the board of directors or by the executive committee. The secretary shall be sworn to the faithful discharge of his duties. Any of the officers of the corporation may be required to give bond for the faithful discharge of their duties, in such sum and with such surety as the board of directors or the executive committee may from time to time prescribe.

SEC. 3. The salaries of the officers shall be fixed from time to time by the board of directors or the executive committee and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the corporation.

ARTICLE V

SECTION 1. The interest of each stockholder of the corporation shall be evidenced by a certificate or certificates for shares of stock in such form as the board of directors may from time to time prescribe. The shares of the stock of the corporation shall be transferable on the books of the corporation by the holder thereof in person or by his attorney upon surrender for cancellation of a certificate or certificates for the same number of shares with an assignment and power of transfer indorsed thereon or attached thereto duly executed, and with such proof of the validity of the signature as the corporation or its agents may reasonably require.

SEC. 2. The certificates of stock shall be signed by the president or a vice president and by the secretary or an assistant secretary, provided that if such certificates are signed by a transfer agent or transfer clerk and by a registrar, the signatures of such president, vice president, secretary or assistant secretary may be facsimiles, engraved, or printed.

SEC. 3. No certificate for shares of stock in the corporation shall be issued in place of any certificate alleged to have been lost, stolen, or destroyed, except upon production of such evidence of such loss, theft, or destruction, and upon delivery to the corporation of a bond of indemnity in such amount and upon such terms and secured by such surety as the board of directors or the executive committee in its discretion may require.

ARTICLE VI

SECTION 1. The books of the corporation, except the original or duplicate stock ledger, may be kept outside of the State of Delaware at such place or places as the board of directors or the executive committee may from time to time determine.

SEC. 2. The board of directors or the executive committee may authorize any officer or officers, agent or agents of the corporation, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances, and unless so authorized by the board of directors or executive committee no officer, agent, or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or to any amount.

No loans shall be contracted on behalf of the corporation and no negotiable paper shall be issued in its name unless authorized by the board of directors or the executive committee. When so authorized, any officer or agent of the corporation may effect loans and advances at any time for the corporation from any bank, trust company, or other institution, or from any firm, corporation, or individual; and for such loans and advances may make, execute, and deliver promissory notes or other evidences of indebtedness of the corporation; and when authorized as aforesaid, as security for the payment of any and all loans and advances to, and indebtedness and liabilities of the corporation, may, subject to the provisions of the certificate of incorporation, mortgage, pledge, hypothecate, or transfer any real and personal property at any time held by the corporation, and to that end execute instruments of mortgage or pledge or otherwise transfer said property. Such authority may be general or confined to specific instances.

All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation, shall be signed by such person or persons and in such manner as shall from time to time be determined by the board of directors or the executive committee.

All funds of the corporation shall be deposited from time to time to the credit of the corporation under such conditions and in such banks, trust companies, or other depositaries as the board of directors or the executive committee may designate, or as may be designated by any officer or officers, agent or agents of the corporation to whom such power may from time to time be delegated by the board of directors or the executive committee; and for the purpose of such deposit any person or persons to whom such power is so delegated may indorse, assign, and deliver checks, drafts, and other orders for the payment of money which are payable to the order of the corporation.

Unless otherwise ordered by the board of directors, or the executive committee, the chairman of the board of directors or the president shall have full power and authority in behalf of the corporation to attend and to act and to vote at any meeting of the stockholders of any corporation in which the company may hold stock, and at any such meeting shall possess and may exercise any and all the rights and powers incident to the ownership of such stock, and which, as the owner thereof, the corporation might have possessed and exercised if present. The board of directors or the executive committee by resolution, from time to time, may confer like powers upon any other person or persons.

Sec. 3. The fiscal year of the corporation shall begin on the 1st day of January in each year and shall end on the 31st day of December following.

Sec. 4. Any stockholder, officer, or director may waive in writing any notice required to be given under these by-laws whether before or after the time stated therein.

Sec. 5. The by-laws of the corporation may be amended, added to, rescinded, or repealed at any meeting of the stockholders, provided notice of the proposed change is given in the notice of the meeting. Subject to the power of the stockholders to amend, add to, rescind, or repeal any by-laws made by the board of directors, the board may make additional by-laws for the corporation and may from time to time amend, add to, rescind, or repeal any of these by-laws.

State of Minnesota,
County of Hennepin, ss:

I, A. E. Wilson, do hereby certify that I am the duly appointed, qualified, and acting secretary of First Bank Stock Corporation, and that the foregoing is a true and correct copy of the by-laws of said corporation in effect at the date hereof.

In witness whereof I have hereunto set my hand and the seal of First Bank Stock Corporation this 5th day of November, 1929.

A. E. Wilson, *Secretary.*

First Bank Stock Corporation

With the adoption of the Federal reserve act, banking in the United States was established upon a definite regional basis, within areas having common economic interests and bound together by established zones of trade and avenues of transportation.

The ninth Federal reserve district, comprising the States of Minnesota, Montana, North Dakota, and South Dakota, the upper peninsula of Michigan, and northwestern Wisconsin, is centralized in the Federal Reserve Bank of Minneapolis. St. Paul and Minneapolis are the largest cities within the district, the terminal headquarters of the railroads traversing the territory, the seats of many of the larger industries and businesses serving the district as a whole, and the clearance centers of a major volume of commercial transactions originating within the territory.

For generations the First National Banks of Minneapolis and St. Paul have been territorial banks of approximately the same region now included within the reserve district. They are the largest banks in the district, and have always been closely identified with the major fiscal activities of the Northwest, serving as the depositories of the territorial industries and also as the rediscount correspondents and reserve depositories of the majority of the banks of the smaller cities and towns.

ORGANIZATION

In August, 1929, the stockholders of these two banks in association with a number of the other leading banks of the ninth district decided to unite the strength of their institutions within a group organization, which it was believed could better serve this territory by creating a medium through which the banks of the Northwest could associate for common strength, improved service, and facility.

The First Bank Stock Corporation of Minneapolis and St. Paul was organized as a central holding company, affording opportunity to the key banks of the district to affiliate through common ownership, bringing into a partnership relation the territorial banks of the metropolitan cities, the commercial banks of the industrial centers, and the agricultural banks of the rural areas.

PRESENT SCOPE

Since its organization the corporation has grouped together 93 of the leading banks, trust companies, and allied financial houses, including many of the oldest and most substantial institutions of the territory with long records of sound management, substantial earnings, and notable service to their communities. By pooling the interests of these banks greater diversification of resources and risk is accomplished; each affiliate is enabled to meet more adequately the seasonal needs of its trade area, while periodical surpluses of funds accumulated beyond local credit needs can be constantly and profitably employed supporting the general trade of the territory.

Sixty-seven cities now are served by affiliates of the corporation, as follows:

State	Cities	Units
Minnesota	24	44
Montana	13	15
North Dakota	17	17
South Dakota	10	12
Michigan	3	3
Territorial affiliates		2

OWNERSHIP

The First Bank Stock Corporation is territorially owned. Its authorized capitalization is 10,000,000 shares at $25 par, of which approximately 3,030,000 shares are outstanding, held by some 16,000 individual stockholders resident almost exclusively within the district. Thus the territory as a whole participates in the distribution of the earnings of the corporation.

INVESTMENTS AND FINANCING

Supplementing the usual banking functions of the affiliated members of the group, two major subsidiaries are maintained. The First Securities Corporation provides a general investment and securities service operating through the banks of the group and extending its facilities to the investing public throughout the Northwest.

The First Bancredit Corporation is an agency for providing credit facilities in specialized financing fields, particular in the building and construction lines, financing installation sales through manufacturers and dealers.

OPERATIONS

Operations of the First Bank Stock Corporation contemplate the retention in the hands of local boards of directors and resident officers of the management of the banking units. The central organization affords a supplementary, cooperative service functioning through several divisions and designed to maintain highly competent management in the units. Periodical examinations, central investment of secondary reserves, adoption of proven standards, exchange of information and the bringing to bear of trained judgments throughout the entire system of banks should insure their operation at a maximum constant of efficiency, providing a degree of security for depositors equal to that of the greatest banks of the nation.

MANAGEMENT

Management of the First Bank Stock Corporation is vested in a board of directors representative of the most substantial interests of the Northwest, an executive committee of commercial, agricultural, and investment bankers of many years experience in the territory served and a group of operating officers recruited from the executive staffs of the First National Banks of St. Paul and Minneapolis.

The executive committee of fifteen is composed as follows:

C. T. Jaffray, chairman of the board of First Bank Stock Corporation, and president of the Minneapolis, St. Paul & Sault Ste. Marie Railroad.

George H. Prince, president of the corporation and chairman of the First National Bank of St. Paul.

Lyman E. Wakefield, vice president of the corporation, president of the First National Bank of Minneapolis and chairman of the Board of the First Minneapolis Trust Co.

Richard C. Lilly, vice president of the corporation and president of the First National Bank of St. Paul.

P. J. Leeman, vice president and general manager of the corporation and vice president of the First National Bank in Minneapolis.

James E. Woodard, President of the Metals Bank & Trust Co. of Butte, Mont.

Sam Stephenson, president of the First National Bank of Great Falls, Mont.

T. A. Marlow, President of the National Bank of Montana, Helena.

J. C. Bassett, chairman of the board of the Aberdeen National Bank & Trust Co., and president of the First State Savings Bank, Aberdeen, S. Dak.

C. B. Little, president of the First National Bank of Bismarck, N. Dak.

R. W. Webb, president of the First Minneapolis Trust Co.

J. A. Oace, vice president of the First National Bank of St. Paul.

Julian B. Baird, president of the First Securities Corporation, St. Paul.

A. McC. Washburn, vice president and general counsel of the First Bank Stock Corporation, Minneapolis.

N. Paul Delander, vice president of the First Securities Corporation, St. Paul.

RESPONSIBILITY

The management of the First Bank Stock Corporation is conscious of the great degree of public responsibility which the nature of this organization entails. Banking is a semipublic function and banks are charged not only with the safeguarding of the accumulated capital of the areas they serve but with the maintenance of a stable financial structure through careful direction of the uses to which this capital is put. Strong banks are essential to prosperity and sound development and it is our purpose to afford the entire territory a banking service meriting the greatest degree of confidence.

It is also our intention that the development of this system shall be conducted frankly and openly and that the residents of the Northwest shall at all times be provided with comprehensive information concerning its activities. With that policy in view this booklet is published.

Group Banking

Group banking is the name that has come into common usage for this step in the evolution of the American banking system, which has developed extensively in the Northwest, prompted by a need to meet a definite change in economic conditions. Group banking is not simply chain banking under another name. Chains of banks under common ownership or common control, usually of a single individual, have existed for generations, the majority stockholder or stockholders simply exercising that natural right to supervise the operations of all the corporations in which their holdings represented controlling interests. Chain management generally reflected a single dominant individual. Group banking, on the other hand, is the association of a number of corporately independent institutions within a single holding company for mutual advantages, the group being built around one or more large banks of a territorial nature and its management resting in the hands of the banking interests of the territory served.

HOW BANKS AFFILIATE

The association of these banks is accomplished by the exchange of stock of the affiliating institutions for the shares of the holding company, the investment interest of the individual stockholders being transferred to the controlling corporation. As a consequence, the ownership of a group rests in the hands of a large number of stockholders representative of the entire district served by the group.

In the parent corporation, a reserve capital structure is created which stands as an emergency reserve for every member of the group.

ADVANTAGES

Group banking of this type has certain inherent elements of increased strength over single banking institutions. Banking is a business of careful investment of the funds entrusted by depositors, and the simple pooling of the investments of a number of banks entails a wider diversification of risk. The group accomplishes a further diversification through the greater variety and type of area and industry served by its members.

Supported by this greater diversification the unit is in a position to meet more fully peak credit loads and seasonal needs of its community. Such seasonal needs of different localities and industries vary widely, often to a point of complete absorption of local credit resources. The group organization provides means of mobilizing the credit supply of the territory to meet these conditions. At the periods of over-supply of available money in units of the group this capital may be marshaled for financing the general business of the territory.

The central treasury also provides a means for expanding the capital structure of its affiliates if the growth of the local communities requires the expansion of loaning power to meet rapid development of trade and industry.

Maintenance of supplementary facilities in territorial divisions of the group will enable the affiliated banks to provide types of services formerly offered by only the largest banks.

Management of the banks in the group remains in the hands of their corporate organization, the credit authority being exercised by local officers and directors. Supervision by the holding company is directed at maintaining efficient management, the conducting of careful examinations, the requirement of periodical reports, the exchange of information, and the adoption of efficient standards and methods.

BUILDING THE COMMUNITIES SERVED

Group banking contemplates the development to the maximum of the service of the component units to the communities in which they are situated. Only through the prosperity and success of its affiliates can the group expect to develop and prosper, and its continued prosperity rests with the development of the communities served.

In recent years there has been a growing tendency among the smaller and more isolated banks to keep their assets in such a liquid condition as to be able to meet an emergency, mass withdrawal at any moment. This has resulted in the creation of overly large liquid reserves, such as cash on hand, cash on deposit with other banks, investments in highly liquid assets such as Government and other low-return bonds and notes. The existence of a large mobile reserve within the holding company will release back to the use of the local communities a large volume of capital now withdrawn from support of general business.

The Northwest is a new country, rich in resources whose exploitation for the benefit of the people living within the territory, will require large credits from outside its borders. The group is a medium through which capital can be drawn into the Northwest and diffused throughout the entire region.

These are the financial institutions affiliated with First Bank Stock Corporation.

[Figures as of December 31, 1929]

State, bank, and city	Capital, surplus, and undivided profits	Deposits	Resources
MINNESOTA			
First National Bank, Minneapolis [1]	$11,613,170.30	$98,089,237.49	$121,035,069.92
First Minneapolis Trust Co., Minneapolis	2,400,000.00	23,879,378.42	26,510,493.24
First Minneapolis Co., Minneapolis	3,697,842.47		4,484,010.33
Minneapolis-Trust Joint Stock Land Bank, Minneapolis	667,169.93		5,073,272.16
Minnehaha National Bank, Minneapolis	121,562.17	1,622,346.14	1,848,564.10
Bloomington-Lake National Bank, Minneaplis	263,424.16	2,103,852.36	2,570,425.25
Produce State Bank, Minneapolis	136,617.18	1,175,329.84	1,318,672.85
Hennepin State Bank, Minneapolis	123,725.89	578,162.77	693,141.87
First National Bank, St. Paul	11,046,408.05	93,059,881.05	113,962,801.79
Merchants Trust Co., St. Paul	1,180,802.25	7,916,619.29	9,183,666.59
Grand Avenue State Bank, St. Paul	52,100.58	519,641.67	575,157.47
Farmers & Merchants State Bank, St. Paul	79,155.93	893,204.16	983,426.82
First Veterans State Bank, St. Paul	112,709.01	262,200.00	381,161.52
Security State Bank, St. Paul	97,056.58	799,690.80	909,278.21
Freeborn County National Bank & Trust Co., Albert Lea	130,000.00	451,905.99	586,205.71
North Side State Bank, Albert Lea	52,365.26	721,569.77	773,935.03
Farmers National Bank, Alexandria	126,592.60	985,291.10	1,125,208.11
Austin National Bank, Austin	140,616.51	1,770,728.93	1,963,928.28
First National Bank, Austin	315,388.90	2,456,236.36	2,894,680.49
National Bank of Benson, Benson	74,428.03	150,266.52	224,694.55
Farmers National Bank, Blue Earth	80,865.72	573,388.25	714,570.19
First National Bank, Blue Earth	44,301.19	463,576.46	519,127.65
First National Bank, Brainerd	217,934.12	3,113,015.13	3,407,891.15
Minnesota National Bank, East Grand Forks (opened Jan. 2)	65,000.00		65,000.00
First National Bank, Fairmont	139,298.24	1,203,774.98	1,393,073.22
First National Bank, Graceville	52,818.83	814,784.88	904,173.91
First National Bank, Heron Lake	93,277.64	824,288.19	952,565.83
State Bank of Litchfield, Litchfield	152,069.15	1,312,412.65	1,483,958.54
American National Bank, Little Falls	151,003.52	1,506,012.36	1,766,225.36
Peoples State Bank, Little Falls	38,124.61	391,789.06	429,913.67
First National Bank, Mankato	321,595.64	3,683,109.18	4,142,204.82
Mankato Loan & Trust Co., Mankato	120,183.24		151,421.32
Northfield National Bank & Trust Co., Northfield	167,062.51	1,038,574.26	1,314,896.69
First National Bank, Owatonna	136,743.21	1,822,635.08	2,059,378.29
Pipestone National Bank, Pipestone	110,119.47	1,071,095.13	1,196,356.17
Security National Bank & Trust Co., Red Wing	166,121.01	1,383,294.71	1,556,626.46
First National Bank, Rochester	383,951.54	3,712,470.88	4,316,266.15
Merchants National Bank, Sauk Centre	69,741.92	1,144,476.46	1,298,420.07
First National Bank, Spring Valley	102,441.70	1,203,156.61	1,365,598.31
Security Natilnal Bank, Willmar	127,706.62	95,376.56	223,083.18
First National Bank, Windom	177,706.11	1,222,003.03	1,485,199.69
Total	35,349,201.79	264,004,776.52	327,843,744.06

[1] Figures for the North side office, the West Broadway office and the St. Anthony Falls office of the First National Bank in Minneapolis are included in the totals of the main office.

State, bank, and city	Capital, surplus, and undivided profits	Deposits	Resources
MONTANA			
Midland National Bank, Billings	$325,000.00	$4,223,760.78	$4,748,760.78
Commercial National Bank, Bozeman	504,307.79	2,735,096.50	3,310,704.14
Metals Bank & Trust Co., Butte	1,278,185.55	21,140,244.53	22,776,710.08
American National Bank, Forsyth	36,781.89	458,892.12	500,674.01
Chouteau County Bank, Fort Benton	97,000.00	893,067.00	991,352.00
First National Bank, Great Falls	789,936.87	12,360,038.83	13,304,975.70
Montana National Bank, Havre	81,714.90	1,072,327.51	1,156,242.41
American National Bank, Helena	511,467.36	4,598,081.63	5,209,548.99
Montana Trust & Savings Bank, Helena	327,929.81	2,664,621.61	2,992,551.42
National Bank of Montana, Helena	425,924.88	3,614,999.83	4,155,662.21
National Bank of Lewistown, Lewistown	200,229.19	1,331,251.32	1,531,480.51
National Park Bank in Livingston, Livingston	244,498.80	3,095,544.92	3,372,907.19
First National Bank, Miles City	300,858.95	2,823,552.49	3,128,701.44
Western Montana National Bank, Missoula	408,657.80	4,435,804.06	4,944,461.86
First State Bank, Shelby	42,908.24	619,607.71	662,515.95
Total	5,575,402.03	66,066,890.84	72,787,248.69
NORTH DAKOTA			
First National Bank, Bismarck	438,041.62	3,989,507.39	4,527,549.01
First National Bank, Cando	76,028.04	712,449.29	802,690.49
Merchants National Bank, Cavalier	66,385.30	677,294.22	743,679.52
First National Bank, Cooperstown	66,015.48	292,267.96	412,996.15
Merchants National Bank & Trust Co., Fargo	334,732.77	2,552,937.39	3,006,134.08
First National Bank, Glen Ullin	40,369.30	535,114.23	583,264.17
Red River National Bank & Trust Co., Grand Forks	268,122.80	860,512.76	1,136,758.88
First National Bank, Harvey	102,174.55	803,360.42	930,534.97
First National Bank, Hebron	66,749.95	662,885.29	762,418.05
National Bank & Trust Co., Jamestown	139,083.10	1,456,042.79	1,604,181.18
First National Bank, Lidgerwood	39,812.53	429,888.50	495,113.13
Union National Bank, Minot	127,171.60	1,526,693.58	1,772,108.05
First National Bank in Neche, Neche	40,000.00	500,000.00	600,000.00
First National Bank, New England	58,595.03	357,880.46	435,635.48
First National Bank, New Rockford	117,326.72	665,822.78	814,541.94
First National Bank, Rolla	54,464.66	386,901.98	471,909.31
National Bank of Valley City, Valley City	138,350.71	1,162,518.30	1,361,068.53
Total	2,173,424.16	17,572,077.34	20,460,582.95
SOUTH DAKOTA			
Aberdeen National Bank & Trust Co., Aberdeen	255,562.17	3,380,282.33	3,635,844.50
First State Savings Bank, Aberdeen	103,247.61	834,623.83	944,780.11
Clark County National Bank, Clark	61,509.01	433,695.55	525,688.24
First National Bank, Gettysburg	48,281.14	437,846.32	516,956.21
Potter County Bank, Gettysburg	51,907.73	617,157.22	683,519.28
First National Bank, Highmore	114,672.26	847,936.40	1,017,603.66
Security National Bank (in process of organization), Huron	260,000.00		260,000.00
First National Bank, Lemmon	77,472.90	532,183.70	641,888.65
First National Bank, Miller	173,632.30	1,126,243.51	1,299,875.81
First National Bank, Ree Heights	49,656.08	300,665.27	350,321.35
First National Bank, St. Lawrence	59,073.63	288,532.79	372,306.44
First National Bank & Trust Co., Vermilion	163,611.13	1,959,275.07	2,149,312.33
Total	1,418,625.96	10,758,441.99	12,398,096.58
MICHIGAN			
First National Bank, Calumet	509,893.32	3,873,519.63	4,628,412.95
First National Bank, Hancock	243,176.71	3,122,788.47	3,436,705.18
First National Bank, Laurium	185,465.45	1,767,082.66	2,068,632.96
	938,535.48	8,763,390.76	10,133,751.09
TERRITORIAL SUBSIDIARIES			
First Bancredit Corporation, St. Paul	1,101,227.54		2,751,120.30
First Securities Corporation, St. Paul	7,500,000.00		13,990,463.78
	8,601,227.54		16,741,584.08
Combined totals	54,056,416.96	367,165,577.45	460,365,007.45

OFFICERS

C. T. Jaffray, chairman of the board of directors; George H. Prince, president; Lyman E. Wakefield, vice president; Richard C. Lilly, vice president; Paul J. Leeman, vice president and general manager; Lyle W. Scholes, vice president; A. McC. Washburn, vice president and general counsel; E. C. Kibbee, vice president; Alfred E. Wilson, secretary and comptroller; M. M. Hayden, treasurer; and M. A. Cooley, assistant secretary and assistant treasurer.

DIRECTORS

Shreve M. Archer, Minneapolis, president Archer-Daniels Midland Co., Dellwood Elevator Co., and Toledo Seed & Oil Co.; director, First National Bank of St. Paul; Merchants Trust Co., St. Paul; and St. Paul Fire & Marine Insurance Co.

Julian B. Baird, St. Paul, president First Securities Corporation; vice president, Merchants Trust Co., St. Paul, and First Veterans State Bank, St. Paul; treasurer, First Bancredit Corporation; secretary-treasurer and director, Northwest Airways (Inc.); director, First National Bank of St. Paul, and Grand Avenue State Bank, St. Paul.

J. C. Bassett, Aberdeen, S. Dak., chairman of the board of directors, Aberdeen National Bank & Trust Co.; president and director, First State Savings Bank, Aberdeen, S. Dak.; vice president and director, First National Bank, Frederick, S. Dak.; director, Federal Reserve Bank, Minneapolis, Dakota Central Telephone Co., and Agricultural Credit Corporation.

Russell M. Bennett, Minneapolis, president and treasurer Mace Iron Mining Co., Benore Co., and Ruddore Co.; president Fidelity Laundry Machinery & Engineering Co.; vice president and treasurer Minneapolis & Michigan Development Co.; vice president, Warben Land Co.; treasurer Keewatin Mining Co., Sargent Land Co., Sutton Land Co., Kearsarge Land Co., Meriden Iron Co., the Cascade Corporation, Cascade Land Co., and Cascade Mining Co.; director and member of executive committee, Brazilian Iron & Steel Co.; director, Minneapolis, St. Paul & Sault Ste. Marie Railway Co., First National Bank in Minneapolis, First Minneapolis Trust Co., the Munsingwear Corporation, Vassar Swiss Underwear Co., Cunic Investment Co., Judson Land Co., Judson Mining Co., Nevada Land Co., Nevada Mining Co., Pilgrim Land Co., and Leddore Mines (Ltd.).

F. R. Bigelow, St. Paul, president St. Paul Fire & Marine Insurance Co., Mercury Insurance Co., and St. Paul-Mercury Indemnity Co. of St. Paul; director, First National Bank of St. Paul, Merchants Trust Co., St. Paul, and Motor Power Equipment Co.

John W. Black, Minneapolis, president John W. Black Co.; Security State Bank, Cannon Falls, Minn.; First National Bank, Thief River Falls, Minn.; Security State Bank, Beardsley, Minn.; Richfield National Bank, Minneapolis; and Columbia National Bank, Columbia Heights, Minn.; vice president, Iron National Bank, Ironwood, Mich.; Oneida National Bank, Rhinelander, Wis.; First National Bank, Wheaton, Minn.; and Crystal Falls National Bank, Crystal Falls, Mich.; director, Produce State Bank, Minneapolis.

Ralph Budd, St. Paul, president Great Northern Railway Co.; director, Chicago, Burlington & Quincy Railroad Co., the Colorado & Southern Railway Co., Western Fruit Express Co., Spokane, Portland & Seattle Railway Co., Glacier Park Hotel Co., Canadian Rockies Hotel Co., First National Bank of St. Paul, Merchants Trust Co., St. Paul.

E. L. Carpenter, Minneapolis, president Shevlin, Carpenter & Clarke Co., Carpenter-Hixon Co. (Ltd.), Land, Log & Lumber Co., McCloud River Lumber Co., Shevlin-Clarke Co. (Ltd.), the Shevlin Co., Shevlin, Carpenter & Hixon Co., National Lumber Manufacturers' Association; vice president, the Shevlin-Hixon Co.; director, Northwestern National Life Insurance Co., First National Bank in Minneapolis, First Minneapolis Trust Co.; trustee, Farmers & Mechanics Savings Bank, Minneapolis.

F. A. Chamberlain, Minneapolis, chairman executive committee First National Bank in Minneapolis; president Minneapolis Eastern Railway Co.; director First Minneapolis Trust Co.; Minneapolis & St. Louis Railway Co.; Northwestern National Life Insurance Co.; and Northwestern Fire & Marine Insurance Co.

Hovey C. Clarke, Minneapolis, treasurer Shevlin, Carpenter & Clarke Co., Minneapolis; director Shevlin-Clarke Co., Minneapolis; chairman Lloyds of

Minneapolis; director First National Bank in Minneapolis; First Minneapolis Trust Co.; and Minneapolis Foundation.

Franklin M. Crosby, Minneapolis, vice president of General Mills (Inc.) and the Washburn-Crosby group; director First National Bank in Minneapolis.

N. P. Delander, St. Paul, vice president and director First Securities Corporation; director First National Bank of St. Paul; Merchants Trust Co., St. Paul; First Bancredit Corporation; Toro Manufacturing Co.; Stott Briquet Co.; A. J. Krank Co.; and Tri-State Telephone & Telegraph Co.

S. W. Dittenhofer, St. Paul, chairman of the board The Golden Rule, St. Paul; president Dittenhofer Realty Co.

Charles Donnelly, St. Paul, president Northern Pacific Railway Co. and Northwestern Improvement Co.; director Chicago, Burlington & Quincy Railroad Co.; Colorado & Southern Railway Co.; Railway Express Agency (Inc.); First National Bank of St. Paul; and Merchants Trust Co., St. Paul.

L. O. Evans, New York, general counsel Anaconda Copper Mining Co. and Butte, Anaconda & Pacific Railway Co.; director Metals Bank & Trust Co., Butte, Mont.; First National Bank, Great Falls, Mont.; and Western Montana National Bank, Missoula, Mont.

E. T. Foley, St. Paul, president Foley Brothers (Inc.); director Purity Bakeries Corporation; First National Bank of St. Paul; and Merchants Trust Co., St. Paul.

Harry P. Gallaher, Minneapolis, president the Northwestern Consolidated Milling Co.; director, First National Bank in Minneapolis.

Charles W. Gordon, St. Paul, president Gordon & Ferguson (Inc.), St. Paul; director C. G. Gunther's Sons, N. Y.; First National Bank of St. Paul; and Merchants Trust Co., St. Paul.

Theodore W. Griggs, St. Paul, president and treasurer Griggs, Cooper & Co.; director First National Bank of St. Paul; Merchants Trust Co., St. Paul; Minnesota Employers' Association; C. W. Griggs Investment Co., Tacoma, Wash.; and Cable Telephone Co., Cable, Wis.

William Hamm, jr., St. Paul, vice president Theo. Hamm Brewing Co., Hamm Realty Co., Hamm Building Corporation; Inter-City Realty & Loan Co., F. & R. Corporation, and Emporium of St. Paul (Inc.); director First National Bank of St. Paul and Merchants Trust Co., St. Paul.

Isaac E. Hansen, St. Paul, vice president First National Bank of St. Paul.

Harry J. Harwick, Rochester, Minn., secretary and treasurer Mayo Clinic, Rochester, Minn., and Mayo Properties Asssociation, Rochester, Minn.; director, secretary, and treasurer the Kahler Corporation, Rochester, Minn.; First National Bank in Minneapolis; First Minneapolis Trust Co.; Wells-Dickey Co.; and O. M. Corwin Co.

John H. Hauschild, Minneapolis, president Charles W. Sexton Co.; attorney Underwriters at Lloyds of Minneapolis; director First National Bank in Minneapolis and Minneapolis Fire & Marine Insurance Co.

Horace M. Hill, Minneapolis, president Janney, Semple, Hill & Co., Minneapolis; director First National Bank in Minneapolis and First Minneapolis Trust Co.

Louis W. Hill, St. Paul, chairman of the board, First National Bank of St. Paul; director, Great Northern Railway Co.; president Great Northern Iron Ore Properties; director, National Surety Co., New York; Merchants Trust Co., St. Paul; and Petroleum Corporation of America, Jersey City, N. J.; president Glacier Park Hotel Co. and Canadian Rockies Hotel Co. (Ltd.); president and director Arthur Iron Mining Co., St. Paul; Fillmore Iron Mining Co., St. Paul; Grant Iron Mining Co., St. Paul; Harrison Iron Mining Co., St. Paul; Jackson Iron Mining Co., St. Paul; Leonard Iron Mining Co., St. Paul; Minawa Iron Co., St. Paul; Minosin Iron Co., St. Paul; Nibiwa Iron Co., St. Paul; North Star Iron Co. of West Virginia; Polk Iron Mining Co., St. Paul; Tyler Iron Mining Co., St. Paul; Van Buren Iron Mining Co., St. Paul; Wabigon Iron Co., St. Paul; and Wenona Iron Co., St. Paul; director, Alexandria Iron Co., Duluth; Mesaba Security Co., Duluth; Monterey Ore Co., Duluth; Neath Mining Co., Duluth; and Wysox Iron Co., Duluth.

Louis K. Hull, Minneapolis, president Western Pacific Land & Timber Co.; member of the executive committee, McCloud River Lumber Co.; director, First National Bank in Minneapolis; First Minneapolis Trust Co.; First Minneapolis Co.; Minneapolis-Trust Joint Stock Land Bank.

Charles G. Ireys, Minneapolis, vice president, treasurer, and director, Russell-Miller Milling Co., Minneapolis; secretary, treasurer, and director, Oceident Elevator Co.; Electric Steel Elevator Co.; secretary, treasurer, general manager, and director, American Elevator & Warehouse Co. (Inc.), Buffalo, N. Y.; and Occident Terminal Co., Duluth, Minn.; director, First National Bank in Minneapolis; First Minneapolis Trust Co.; Wells-Dickey Co.

Horace H. Irvine, St. Paul, president Thompson Yards (Inc.); treasurer, Weyerhaeuser Timber Co.; vice president, Weyerhaeuser Sales Co.; director, St. Paul Fire & Marine Insurance Co.; Globe Steel Tubes Co.; First National Bank of St. Paul; and Merchants Trust Co., St. Paul; president Grand Avenue State Bank, St. Paul; and Snohomish River Boom Co.

C. T. Jaffray, Minneapolis, president Minneapolis, St. Paul & Sault Ste. Marie Railway Co. and Duluth, South Shore & Atlantic Railway; chairman of the board the Agricultural Credit Corporation and Northwestern Fire & Marine Insurance Co.; director First National Bank in Minneapolis; First National Bank of St. Paul; First Minneapolis Trust Co.; Merchants Trust Co., St. Paul; First Minneapolis Co.; First Securities Corporation; First Bancredit Corporation; Northwestern National Life Insurance Co.; Title Insurance Co.; American Radiator Co.; and Northwest Terminal Co.

John Junell, Minneapolis, member, Junell, Oakley, Driscoll & Fletcher, attorneys; director, First National Bank in Minneapolis; Southern Minnesota Joint Stock Land Bank; Truax-Traer Coal Co.; and Automotive Investments (Inc.).

Charles O. Kalman, St. Paul, president Kalman & Co., St. Paul; president and director Watertown & Sioux Falls Railway; director, First National Bank of St. Paul; Merchants Trust Co., St. Paul; Northwestern Trust Co., St. Paul; St. Paul National Bank; North American Aviation (Inc.); Petroleum Corporation of America; Griggs, Cooper & Co.; the Emporium of St. Paul (Inc.); Gordon & Ferguson (Inc.); Schunemans & Mannheimers, St. Paul; Anchor Casualty Co.; Bliss & Laughlin (Inc.); Hudson Motor Co. of Illinois; Kalman Steel Co.; Stott Briquet Co.; and Minneapolis Theatre Co.

Paul J. Kalman, St. Paul, chairman of the board Globe Steel Tube Co.; Kalman Steel Co.; and Hudson Motor Co. of Illinois; president Kalman Investment Co.; Bliss & Laughlin (Inc.); Kalman Floor Co.; and Twin City Motor Car Co.; director, First National Bank of St. Paul; First Bancredit Corporation; Merchants Trust Co., St. Paul; Grand Avenue State Bank, St. Paul; and Benedict Stone (Inc.).

Cornelius F. Kelley, New York, president Anaconda Copper Mining Co.; Andes Copper Mining Co.; Butte, Anaconda & Pacific Railway Co.; International Smelting Co.; Chile Copper Co.; Chile Exploration Co.; Silesian-American Corporation; Silesian Holding Co.; and Copper Exporters (Inc.); vice president, United Metals Selling Co.; and Copper Export Association; director, Butte Water Co.; Guaranty Trust Co., New York; Western Montana National Bank, Missoula; Metals Bank & Trust Co., Butte; American Brass Co.; Anaconda-American Brass Co. (Ltd.); and Rocky Mountain Power Co.; chairman Copper Institute; and Giesche Spolka Akcyjna; first vice president American Manufacturers Export Association.

William P. Kenney, St. Paul, vice president and director of traffic, Great Northern Railway Co.; director, Great Northern Railway Co.; vice president, Glacier Park Hotel Co.; vice president and director, First National Bank of St. Paul; director, Merchants Trust Co., St. Paul; Minnesota Mutual Life Insurance Co.; and Western Fruit Express Co.

Horace C. Klein, St. Paul, managing partner, Webb Publishing Co., St. Paul; director, Standard Farm Paper Association; and Agricultural Publishers Association.

P. J. Leeman, Minneapolis, vice president and general manager, First Bank Stock Corporation; vice president, First National Bank in Minneapolis; president Produce State Bank; vice president, First Minneapolis Co.; director, First Minneapolis Trust Co.; First Securities Corporation; First Bancredit Corporation; Federal Reserve Bank, Minneapolis; Northwestern Fire and Marine Insurance Co.; Twin City Fire Insurance Co.; Northern Finance Corporation; Duluth, South Shore & Atlantic Railway Co.; and Western Oil & Fuel Co.

R. C. Lilly, St. Paul, president First National Bank of St. Paul; vice president, First Bank Stock Corporation; vice president and director, Merchants Trust Co., St. Paul; vice president and director, Grand Avenue State Bank, St. Paul; president Northwest Airways (Inc.), St. Paul; director, First Securities Corporation; vice president and director, First Bancredit Corporation; director, First National Bank in Minneapolis; Tri-State Telephone and Telegraph

Co.; Griggs, Cooper & Co.; and the Emporium of St. Paul (Inc.); trustee, Minnesota Mutual Life Insurance Co.; director, Dakota Central Telephone Co., Aberdeen, S. Dak.

C. B. Little, Bismarck, N. Dak., president First National Bank of Bismarck; Provident Life Insurance Co., Bismarck, N. Dak.; and Bismarck Loan & Investment Co.; director, First National Bank of St. Paul; Merchants Trust Co., St. Paul; and Bismarck Building & Loan Association.

A. C. Loring, Minneapolis, president Pillsbury Flour Mills (Inc.) of Delaware; and Pillsbury Flour Mills Co. of Minnesota; director, Great Northern Railway Co.; and First National Bank in Minneapolis.

James MacNaughton, Calumet, Mich., president Calumet and Hecla Consolidated Copper Co.; vice president, general manager, Isle Royal Copper Co.; LaSalle Copper Co.; and Cliff Mining Co.; general manager, Lake Milling, Smelting & Refining Co.; director, Duluth, South Shore & Atlantic Railway Co.

Sumner T. McKnight, Minneapolis, president S. T. McKnight Co., Minneapolis; chairman board of directors, Produce State Bank, Minneapolis; president Minneapolis Theater Co.; LaSalle Realty Co.; and Commercial Developing Co.; director, First National Bank in Minneapolis; Northwestern Bell Telephone Co.; Northwestern States Portland Cement Co.; Minneapolis-Moline Power Implement Co.; and Anchor Casualty Co.; trustee, Minneapolis Foundation.

T. A. Marlow, Helena, Mont., president National Bank of Montana, Helena; president Montana Trust & Savings Bank, Helena; director Metals Bank & Trust Co., Butte; director Northern Montana State Bank, Big Sandy, Mont.; director Federal reserve bank, Helena branch; director First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director Montana Flour Mills Co., Great Falls; director Montana Elevator Co.; director Independent Coal & Coke Co., Salt Lake City; director Great Northern Railway Co.; partner McNamara & Marlow, Big Sandy, Mont.; director McNamara & Marlow (Inc.).

B. V. Moore, Minneapolis, vice president and treasurer First Minneapolis Trust Co.; vice president and treasurer First Minneapolis Co.; vice president Minneapolis-Trust Joint Stock Land Bank; director Bardwell Robinson Co.

J. A. Oace, St. Paul, vice president First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director First Bancredit Corporation; director First Securities Corporation; director First Veterans' State Bank, St. Paul.

E. B. Ober, St. Paul, president Motor Power Equipment Co., St. Paul; vice president Anchor Casualty Co.; director First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director St. Paul Industries; director Minnesota Employers' Association.

A. F. Pillsbury, Minneapolis, treasurer Pillsbury Flour Mills Co.; director First National Bank in Minneapolis; director First Minneapolis Trust Co.; vice president Farmers & Mechanics Savings Bank, Minneapolis; director Northwestern National Life Insurance Co.; director Twin City Rapid Transit Co.; president Kearsarge Mining Co.; director Sutton Mining Co.; director Keewatin Mining Co.; director Sargent Mining Co.

C. S. Pillsbury, Minneapolis, vice president Pillsbury Flour Mills Co.; director First National Bank in Minneapolis; director First Minneapolis Trust Co.; director Minneapolis, St. Paul & Sault Ste. Marie Railway Co.; vice president Title Insurance Co.; president Sargent Land Co.; president Keewatin Mining Co.; vice president Sutton Land Co.; vice president Union Elevator Co.; director Kearsarge Land Co.

J. S. Pomeroy, Minneapolis, vice president First National Bank in Minneapolis; director First Minneapolis Trust Co.; president Bloomington-Lake Nation Bank, Minneapolis.

F. M. Prince, Minneapolis, chairman of the board First National Bank in Minneapolis; director First Minneapolis Trust Co.; director First National Bank, Cloquet, Minn.; director the Shevlin Co.; director First National-Soo Line Building Co.

George H. Prince, St. Paul, president First Bank Stock Corporation; chairman and director First National Bank of St. Paul; director First National Bank in Minneapolis; president Merchants Trust Co., St. Paul; director First Securities Corporation; director First Bancredit Corporation; member advisory council Federal Reserve Board, Washington, D. C.; vice president First National Bank of Cloquet; director Archer-Daniels Midland Co.; director St. Paul Fire & Marine Insurance Co.; director Tri-State Telephone & Telegraph Co.; director Consolidated Elevator Co., Duluth.

George W. Robinson, St. Paul, president and general manager Tri-State Telephone & Telegraph Co., St. Paul; vice president Dakota Central Telephone Co., Aberdeen, S. Dak.; vice president United States Independent Telephone Association; president Program Service Co.; vice president Northern Building & Loan Association; trustee Minnesota Mutual Life Insurance Co.; director First National Bank of St. Paul; director Merchants Trust Co., St. Paul; director St. Paul Industries (Inc.).

John D. Ryan, New York, chairman of the board Anaconda Copper Mining Co.; chairman of the board Chile Copper Co.; chairman of the board Andes Copper Mining Co.; director International Smelting Co.; director National City Bank of New York; director American Brass Co.; president United Metals Selling Co.; president the Montana Power Co.; trustee Emigrant Industrial Savings Bank, New York; director Metals Bank & Trust Co., Butte, Mont.; trustee Consolidated Gas Co. of New York; director Brooklyn Edison Co.; director American Power & Light Co.; director United States Realty & Improvement Co.

Fred W. Sargent, Chicago, president Chicago & North Western Railway Co.; Chicago, St. Paul, Minneapolis & Omaha Railway Co.; director, Continental Illinois Bank & Trust Co., Chicago; Merchandise Bank & Trust Co., Chicago; United States Chamber of Commerce.

H. A. Scandrett, Chicago, president Chicago, Milwaukee, St. Paul & Pacific Railroad Co.; Chicago, Milwaukee & Gary Railroad Co.; Chicago, Terre Haute & Southeastern Railroad Co.; member of executive committee of Association of Railway Executives; member of executive committee of Western Association of Railway Executives; director, Chicago Union Station Co.; Indiana Harbor Belt Railroad Co.; Minneapolis Eastern Railway Co.; Continental Illinois Bank & Trust Co., Chicago; First National Bank of St. Paul; Merchants Trust Co., St. Paul; Continental Telegraph Co.; Excelsior Coal Co.; Milwaukee Land Co.; Western Railroad Association, Chicago.

Sam Stephenson, Great Falls, Mont., president First National Bank, Great Falls, Mont.; member, Cooper, Stephenson & Hoover; president Great Falls Townsite Co.; Rocky Mountain Fire Insurance Co.; Great Falls Electrical Products Corporation; chairman of the executive committee, Montana Flour Mills Co.

Martin L. Thompson, Vermilion, S. Dak., chairman of the board First National Bank & Trust Co., Vermilion, S. Dak.; president Associated Farms, (Inc.), director, Thompson Lumber Co.; owner Thompson-Lewis Co.

Lyman E. Wakefield, Minneapolis, president First National Bank in Minneapolis; chairman of the board of directors First Minneapolis Trust Co.; vice president First Bank Stock Corporation; director, First Securities Corporation; First National Banak of St. Paul; Merchants Trust Co., St. Paul; Wells-Dickey Co.; George A. Hormel & Co.; Jacob E. Decker & Sons; treasurer and director, Nicollet Hotel, Minneapolis; president and director, Equitable Loan Association; director, Northwest Fire & Marine Insurance Co.

E. C. Warner, Minneapolis, president E. C. Warner Co., Minneapolis; Canadian Elevator Co. (Ltd.); Tuxedo Park Co.; chairman of the board, McGill Warner Co.; vice president, Northwestern Fire & Marine Insurance Co.; president Grain Securities (Ltd.); director, Monarch Lumber Co.; First National Bank in Minneapolis; Consolidated Grain Co. (Ltd.); Twin City Fire Insurance Co.; Hanover Fire Insurance Co.; Fulton Fire Insurance Co.

A. McC. Washburn, Minneapolis, vice president and general counsel First Bank Stock Corporation; First National Bank in Minneapolis; director, First Minneapolis Trust Co.; First Securities Corporation; First Bancredit Corporation; vice president, Spalding Hotel Co., Duluth; Howze, Spencer & Co.; director, Investment Certificate Co., Duluth, Minn.

Robert W. Webb, Minneapolis, president First Minneapolis Trust Co.; First Minneapolis Co.; Minneapolis-Trust Joint Stock Land Bank; chairman of the board, First Securities Corporation; director, First National Bank in Minneapolis; Northwestern Fire Insurance Co.; Twin City Fire Insurance Co.; First Bancredit Corporation; chairman of the board Title Insurance Co. of Minnesota; trustee, Minneapolis Foundation.

Frederick B. Wells, Minneapolis, vice president, F. H. Peavey & Co.; president Globe Elevator Co.; vice president, Peavey-Duluth Terminal Elevator Co.; Monarch Elevator Co.; director, First National Bank in Minneapolis; First Minneapolis Trust Co.; president Grand Trunk Pacific Elevator Co.; vice president, British-America Elevator Co.; president National Elevator Co.; Northern Elevator Co.

Stuart W. Wells, Minneapolis, president Wells-Dickey Co.; director, Russell-Miller Milling Co.; First National Bank in Minneapolis; First Minneapolis Trust Co.; Foley Manufacturing Co.; O. M. Corwin Co.; Equitable Loan Association.

F. E. Weyerhaeuser, St. Paul, vice president, Weyerhaeuser Timber Co., Tacoma, Wash.; vice president, Thompson Yards (Inc.), St. Paul; director Great Northern Railway Co., Continental Illinois Bank and Trust Co. Chicago; First National Bank of St. Paul, Merchants Trust Co., St. Paul.

R. M. Weyerhaeuser, St. Paul, director, Northern Pacific Railway Co., chairman of the board, Northwest Paper Co.; president Edward Rutledge Timber Co., First National Bank, Cloquet, Minn., director, First National Bank, of St. Paul, Merchants Trust Co., St. Paul.

W. D. Willard, Mankato, Minn., vice president, First National Bank, Mankato, vice president and treasurer, Mankato Loan and Trust Co., secretary-treasurer, Mankato Citizens Telephone Co., treasurer, Mankato Industrial Corporation.

Frederick E. Williamson, Chicago, president, Chicago, Burlington, and Quincy Railroad Co., Colorado and Southern Railway Co., Fort Worth and Denver City Railway Co., Wichita Valley Railway Co., director, Chicago Burlington and Quincy Railroad Co., Colorado and Southern Railway Co., Fort Worth and Denver City Railway Co., Wichita Valley Railway Co., Trinity and Brazos Valley Railway Co., Western Pacific Railroad Co., Chicago Union Station Co., First National Bank, Chicago, First Union Trust and Savings Bank, Chicago, Continental Illinois Bank and Trust Co., Chicago, First National Bank of St. Paul, Merchants Trust Company, St. Paul.

James E. Woodard, Butte, Mont., president Metals Bank and Trust Co., Butte, vice president, First Securities Corporation, Director, First Bancredit Corporation, Midland National Bank, Billings, Interstate Lumber Co., Electrical Products Corporation of Montana, Montana Flour Mills Co., West Dome Oil Co.

Statement of banks and corporations affiliated with First Bank Stock Corporation

State, city, and name of bank	Capital	Surplus	Undivided profits	Deposits	Total resources	Per cent controlled
MINNESOTA						
Minneapolis:						
First National Bank	$6,000,000.00	$5,000,000.00	$613,170.30	$97,796,613.27	$122,159,177.19	99.30
First Minneapolis Trust Co	1,000,000.00	1,000,000.00	400,000.00	23,070,838.90	26,510,493.24	99.30
Minnehaha National Bank	100,000.00	20,000.00	1,562.17	1,622,346.14	1,848,564.10	99.30
Bloomington Lake National Bank	200,000.00	20,000.00	43,424.16	2,103,852.36	2,570,425.25	99.30
Produce State Bank	100,000.00	20,000.00	16,617.18	1,175,329.84	1,318,672.85	99.30
Hennepin State Bank	100,000.00	20,000.00	3,725.89	568,162.77	693,141.87	100
St. Paul:						
First National Bank	6,000,000.00	4,000,000.00	1,046,408.05	92,742,783.83	114,567,233.34	97.07
Merchants Trust Co	600,000.00	200,000.00	180,802.25	7,405,146.16	9,364,875.63	97.07
Grand Avenue State Bank	25,000.00	30,000.00	7,100.58	519,641.67	575,157.47	97.07
Farmers & Merchants State Bank	50,000.00	20,000.00	9,155.93	893,204.16	983,426.82	97.07
First Veterans State Bank	80,000.00	20,000.00	12,709.01	262,200.00	381,161.52	97.07
Security State Bank	60,000.00	30,000.00	7,056.58	802,255.10	911,842.51	69.33
Alexandria, Farmers National Bank	100,000.00	25,000.00	1,592.00	985,291.10	1,125,208.11	100
Austin:						
Austin National Bank	75,000.00	60,000.00	5,616.51	1,770,728.93	1,968,928.28	100
First National Bank	100,000.00	200,000.00	15,388.90	2,462,236.36	2,894,680.49	100
Benson, National Bank of Benson	50,000.00	20,000.00	4,428.03	150,266.52	224,694.55	100
Blue Earth:						
Farmers National Bank [1]	50,000.00	25,000.00	5,865.72	573,388.25	714,570.19	100
First National Bank [1]	25,000.00	10,000.00	9,301.19	462,997.40	518,548.59	98
Brainerd, First National Bank	100,000.00	100,000.00	17,934.12	3,113,015.13	3,407,891.15	64.50
East Grand Forks, Minnesota National Bank	50,000.00	10,000.00	5,000.00		65,000.00	100.00
Fairmont, First National Bank	100,000.00	25,000.00	14,298.24	1,203,774.98	1,398,073.22	100.00
Graceville, First National Bank	26,000.00	15,000.00	12,818.83	814,784.88	904,173.91	100.00
Heron Lake, First National Bank	35,000.00	35,000.00	17,277.64	824,288.19	952,565.83	100.00
Litchfield, State Bank of Litchfield	100,000.00	25,000.00	27,069.15	1,312,412.65	1,483,958.54	100.00
Little Falls:						
American National Bank	100,000.00	25,000.00	26,003.52	1,506,012.36	1,771,225.36	51.00
Peoples State Bank	25,000.00	5,000.00	8,124.61	391,087.76	429,913.67	100.00
Mankato:						
First National Bank	250,000.00	50,000.00	21,595.64	3,680,254.11	4,152,204.82	100.00
Mankato Loan & Trust Co	60,000.00	40,000.00	20,183.24	29,350.23	151,421.32	100.00
Northfield, Northfield, National Bank & Trust Co	100,000.00	50,000.00	17,062.51	1,038,574.26	1,314,896.69	100.00
Owatonna, First National Bank	100,000.00	25,000.00	11,743.21	1,822,635.08	2,059,378.29	100.00
Pipestone, Pipestone National Bank	75,000.00	25,000.00	10,119.47	1,071,481.97	1,196,743.01	100.00
Red Wing, Security National Bank & Trust Co	100,000.00	50,000.00	16,121.01	1,383,294.71	1,556,626.46	100.00
Rochester, First National Bank	200,000.00	100,000.00	83,951.54	3,712,470.88	4,316,266.15	100.00
Sauk Centre, Merchants National Bank	25,000.00	30,000.00	14,741.92	1,153,048.02	1,298,420.07	100.00
Spring Valley, Frist National Bank	50,000.00	35,000.00	22,441.70	1,208,156.61	1,365,598.31	99.2
Willmar, Security National Bank	100,000.00	20,000.00	7,706.62	95,376.56	223,083.18	100.00

[1] Now consolidated.

Statement of banks and corporations affiliated with First Bank Stock Corporation—Continued

State, city, and name of bank	Capital	Surplus	Undivided profits	Deposits	Total resources	Per cent controlled
MONTANA						
Billings, Midland National Bank	$200,000.00	$100,000.00	$25,000.00	$4,223,760.78	$4,748,760.78	100
Bozeman, Commercial National Bank	150,000.00	100,000.00	254,307.79	2,742,696.50	3,310,704.14	86.67
Butte, Metals Bank & Trust Co.*	600,000.00	400,000.00	328,185.55	21,193,524.53	22,776,710.08	100
Great Falls, First National Bank	200,000.00	400,000.00	189,936.87	12,360,038.83	13,304,975.70	100
Havre, Montana National Bank of Havre	50,000.00	25,000.00	6,714.90	1,074,527.51	1,156,242.41	100
Helena:						
American National Bank	200,000.00	225,000.00	86,241.66	4,598,307.33	5,209,548.99	99.67
National Bank of Montana	250,000.00	150,000.00	25,924.88	3,629,737.33	4,158,981.65	99.20
Montana Trust & Savings Bank*	150,000.00	100,000.00	14,824.81	2,664,621.61	2,954,446.42	100
Lewistown, National Bank of Lewistown	150,000.00	30,000.00	20,229.19	1,331,251.32	1,531,480.51	100
Livingston, National Park Bank	100,000.00	100,000.00	44,571.48	3,097,919.92	3,372,979.87	100
Miles City, First National Bank	150,000.00	100,000.00	50,858.95	2,827,842.49	3,158,701.44	98.66
Missoula, Western Montana National Bank	200,000.00	100,000.00	107,037.22	4,435,804.00	4,944,461.86	100
Shelby, First State Bank	25,000.00	12,500.00	5,408.24	619,607.71	662,515.95	100
NORTH DAKOTA						
Bismarck, First National Bank	200,000.00	125,000.00	12,400.91	3,988,635.34	4,526,676.96	99.4
Cando, First National Bank	50,000.00	10,000.00	16,028.04	712,472.67	807,690.49	95
Cavalier, Merchants National Bank	30,000.00	30,000.00	6,385.30	677,299.38	748,684.68	100
Cooperstown, First National Bank	50,000.00	10,000.00	6,015.48	292,267.96	412,996.15	90
Fargo, Merchants National Bank & Trust Co	250,000.00	50,000.00	34,732.77	2,552,937.39	3,006,134.08	61.4
Glen Ullin, First National Bank	25,000.00	10,000.00	5,369.30	535,114.23	583,264.17	100
Grand Forks, Red River National Bank & Trust Co	200,000.00	50,000.00	18,122.80	860,512.76	1,136,758.88	99.37
Harvey, First National Bank	50,000.00	25,000.00	27,174.55	803,360.42	930,534.97	100
Hebron, First National Bank	30,000.00	30,000.00	6,749.95	662,885.29	762,418.05	77
Jamestown, National Bank & Trust Co	100,000.00	25,000.00	14,083.10	1,456,042.79	1,604,181.18	100
Lidgerwood, First National Bank	25,000.00	5,000.00	9,812.53	429,888.50	495,113.13	100
New England, First National Bank	25,000.00	20,000.00	13,595.03	357,880.46	435,635.49	100
New Rockford, First National Bank	25,000.00	60,000.00	32,326.72	665,882.78	814,541.94	50.4
Rolla, First National Bank	40,000.00	10,000.00	4,464.66	389,301.98	471,909.31	100
Valley City, National Bank of Valley City	100,000.00	25,000.00	13,350.71	1,162,518.30	1,361,068.53	89
SOUTH DAKOTA						
Aberdeen:						
Aberdeen National Bank & Trust Co	100,000.00	75,000.00	34,863.46	3,380,282.33	3,635,844.50	98
First State Savings Bank	50,000.00	40,000.00	13,247.61	834,623.83	944,780.11	100
Clark: Clark County National Bank	25,000.00	25,000.00	11,509.01	433,697.33	525,690.02	100
Gettysburg:						
First National Bank [2]	25,000.00	15,000.00	8,281.14	436,399.21	515,509.10	100
Potter County Bank [2]	30,000.00	20,000.00	258.27	617,157.22	681,869.82	100
Highmore, First National Bank	50,000.00	25,000.00	39,672.26	847,936.40	1,017,603.66	100

Lemmon, First National Bank	30,000.00	20,000.00	27,472.90	532,183.70	641,888.65	100
Miller, First National Bank	50,000.00	100,000.00	23,632.30	1,126,243.51	1,299,875.81	100
Ree Heights, First National Bank	25,000.00	15,000.00	9,656.08	300,665.27	350,321.35	100
St. Lawrence, First National Bank	25,000.00	15,000.00	17,073.65	288,532.79	372,306.44	100
Vermilion, First National Bank & Trust Co	190,000.00	50,000.00	15,687.09	1,959,275.07	2,151,140.45	100
MICHIGAN						
Calumet, First National Bank	200,000.00	250,000.00	59,893.32	3,873,524.14	4,628,417.46	97.8
Hancock, First National Bank	100,000.00	100,000.00	43,176.71	3,122,788.47	3,456,705.18	99
Laurium, First National Bank	100,000.00	50,000.00	35,465.45	1,767,082.66	2,072,632.96	98.2
Subsequent acquisitions						
Albert Lea:						
Freeborn County National Bank & Trust Co	100,000.00	20,000.00	10,000.00	421,246.10	556,077.15	100
North Side State Bank	25,000.00	15,000.00	15,897.48	699,670.62	777,001.88	72
Forsyth, American National Bank	25,000.00	10,000.00	1,781.89	426,898.96	463,689.24	88
Windom, First National Bank	75,000.00	25,000.00	20,119.10	1,255,644.80	1,462,423.75	96.9
Fort Benton Chouteau County Bank	20,000.00	30,000.00	46,364.18	728,231.56	824,595.74	100
Lake Elmo, State Bank of Lake Elmo	15,000.00	10,000.00	11,412.67	374,323.32	417,128.34	100
Neche, First National Bank in Neche	25,000.00	10,000.00	2,630.10	510,695.25	554,006.09	100
Park River, First National Bank	25,000.00	25,000.00	5,081.92	446,844.14	534,241.06	100
Robbinsdale, Security State Bank of Robbinsdale	25,000.00	15,000.00	2,013.11	384,980.96	432,758.74	100
Rothsay, Farmers State Bank	15,000.00	10,000.00	10,812.34	409,575.19	457,307.08	100
St. Paul, Northwestern Trust Co	1,000,000.00	100,000.00	59,995.01		2,533,205.27	54
St. Paul, Saint Paul National Bank	100,000.00	26,000.00	5,991.34	1,431,440.92	1,581,032.26	100
South Heart, First State Bank	10,000.00	11,000.00	1,989.00	131,135.96	154,124.96	51
Total of banks	22,505,000.00	14,808,500.00	4,651,948.80	366,814,961.02	439,808,536.86	

[2] First National Bank and Potter National Bank Bank now consolidated.

Figures as of Dec. 31, 1929, except where acquired at later date:

National banks	68
State banks, members Federal reserve system (indicated by (*))	2
State banks, nonmembers Federal reserve system	21
Other corporations	7
Institutions	98

Other corporations

State, city, and name of bank	Capital	Surplus	Undivided profits	Deposits	Total resources	Per cent controlled
MINNESOTA						
Minneapolis:						
First Minneapolis Co.[3]	$1,500,000.00	$1,878,290.31	$319,552.16		$4,484,010.33	99.30
Minneapolis Trust Joint-Stock Land Bank	450,000.00	50,000.00	167,169.93		5,073,272.16	99.30
St. Paul:						
First St. Paul Co.[3]	3,000,000.00	2,134,119.53			6,045,885.61	97.07
First Bancredit Corporation	518,200.00		83,027.54		2,251,120.30	99.98
Austin, Austin National Co.	75,000.00	5,185.35			137,800.40	100
Owatonna, The F-N Co.	10,000.00	15,000.00	3,525.01		41,725.01	100
Subsequent acquisition						
St. Paul, Northwestern Acceptance Corporation	247,375.00	8,370.20			589,219.66	100
Total of corporations	5,800,575.00	4,090,965.39	573,274.64		18,623,033.47	
Grand total	28,305,575.00	18,899,465.39	5,225,223.44	$366,814,961.02	458,431,570.33	

[3] First Securities Corporation, organized Jan. 2, 1930, assumes all business First St. Paul Co. and bond department of First Minneapolis Co.

(5) We have acquired controlling interest in the various banks and corporations comprising our group in the following manner:
(*a*) By purchase of their stock for cash.
(*b*) By incorporating new banks, and paying in the capital in cash.
(*c*) By exchanging stock of this corporation for stock of the banks.
(*d*) By a combination of (*a*) and (*c*).
In some cases we have solicited the affiliation, but in a large majority of cases we have been approached by the banks themselves. In every case a very thorough examination is made before the purchase is completed, and all undesirable assets are either removed from the bank or are secured by adequate guaranty. In some cases where undesirable assets are removed, the accepted assets are guaranteed by deposit of a portion of our stock, given to them in exchange for theirs. We require all depositing stockholders to guarantee the validity of their stock, and also require them to sign a guaranty protecting us against any liabilities of the bank existing on the date on which the deal is closed and now shown on the balance sheet. The number of shares of our stock given in exchange for the stock of the affiliating bank or corporation is determined both by the amount of net capital assets which we require, and by the earning power of the bank or corporation over a period of years.

(6) The capital structure of the First Bank Stock Corporation is composed solely of fully-paid and nonassessable shares of the par value of $25 per share of our capital stock. There was outstanding on December 31 a total of 3,016,870.57 shares of this stock with a par value of $75,421,764.39. The stockholders are distributed georgraphically as follows:

	Number of stockholders
Minneapolis	6,753
Saint Paul	2,345
Minnesota (outside of Twin Cities)	3,201
Michigan	383
Montana	987
North Dakota	892
South Dakota	516
Wisconsin	446
Other States	596
	16,119

With the exception of 200,000 shares sold through First Minneapolis Co. and First St. Paul Co. to the general public at $47.50 per share, and 32,000 shares sold to officers and employees of the corporations affiliated with First Bank Stock Corporation at $42.50 per share, all of the stock has been issued in exchange for the stock of banks and corporations now affiliated with us, and no attempt has been made to otherwise control its distribution.

I have some facts concerning the matters you discussed yesterday which I know you will be interested in. The conditions which I described a few moments ago, concerning the possible earnings of the small banks, have changed substantially the opportunity for a bank in various-sized communities. To-day the bank in the small community finds it practically impossible to make a fair earning and I want to repeat what Mr. Decker told you yesterday that there is no more dangerous institution in a community anywhere than a bank which can not make money. It is just fundamental if they can not make a profit, they are a dangerous institution because they can not exist. They do exist over a period, because the stockholders will permit themselves to be assessed for operating charges, but eventually they get tired of that and there is a closing.

My experience is that it takes exceptional management to enable a bank to earn sufficient to justify its existence if it has deposits of less than $250,000 under a State charter, and less than $500,000 under a national charter.

I am reading these figures, because I can not carry them in my head, but taking Minnesota alone, there are 73 towns in Minnesota with less than 100 population that have banks. In 9 of these towns, the total deposit is less than $50,000; 24 have deposits from $50,000 to $100,000; 19 from $100,000 to $150,000; 10 from $150,000 to $200,-000; and 5 from $200,000 to $250,000.

In communities of from 100 to 200 in population, 5 have deposits under $50,000; 36 from $51,000 to $100,000; 29 from $100,000 to $150,000; 19 from $150,000 to $200,000; and 12 from $200,000 to $250,000.

In towns of all sizes in Minnesota, there are 55 with a total deposit less than $50,000; 71 from $51,000 to $100,000; 88 from $100,000 to $150,000; 95 from $150,000 to $200,000; and 16 from $200,000 to $250,000. This shows a total of 325 towns in the one State where the bank deposits are less than $250,000. That does not mean there is only one bank in the town; in many instances there are two. There are 145 towns which have no banking facilities whatsoever.

I want to call your attention to this: Is it possible to make a statement before you that will not be circulated in the newspapers, to the detriment of our own people back home?

Mr. Strong. Not in the presence of the newspaper gentlemen, because that is what they are paid for. These young men are paid to get the news; especially to get the news you do not want them to have.

Mr. Wakefield. It is my observation that most newspaper men have some judgment.

Mr. Strong. It is my experience that if you ask them not to print a thing they will not print it.

Mr. Wakefield. I will say this, at this point, that since I came down here——

Mr. Brand. Let us settle this question. I want the information which he thinks would be interesting to this committee, in order that we may intelligently prepare legislation to remedy these evils.

Mr. Wakefield. I will get to it in another way.

Mr. Busby. If it is worth while to explain the matter, I do not think it is well to cover it up, even if it applies to your institution.

Mr. Wakefield. It does not involve my institution.

Mr. Busby. Or any other institution.

Mr. Wakefield. It does not involve much, but it might be misunderstood.

Referring to these 145 towns without banking facilities, and where there were banks, since I came down here, Mr. Veigel, who is superintendent of banks of the State of Minnesota, has come out publicly with a recommendation that the State of Minnesota authorize State banks to put branches or offices or teller's windows into those towns. I will read the statement.

Personaly, I am inclined to think the State might permit strong banks to establish branches in neighboring places, say within a radius of 20 miles. That right would be carefully limited so it could not be abused. No bank would be allowed to put a branch in a town which had a bank already. No branch would be permitted except under a charter from the commission. Ordinarily not more than one bank should be allowed to have a branch in any place.

Branches such as I have in mind would be merely offices, with a teller in charge, whose authority would be limited to receiving deposits and cashing checks.

Mr. Veigel's purpose in making that recommendation undoubtedly is because of the fact there are so many small communities at the present time not served with banking facilities, and he would like the State banks of Minnesota to take care of these people.

Mr. Decker described yesterday the requests that had come to permit deposits in drug stores. We have had the same kind of thing and have them constantly, but there is not any way you can take care of those things under the present conditions.

This position on the part of Mr. Veigel is a complete change of attitude. He has been, in the past, firmly opposed to any form of branch banking at any time.

Now, this condition that I have just described in reference to these small towns, there are the points where this branch banking seems to become a topic for discussion. I feel myself that ultimately the small banking business must be taken out through branches of some institution that can afford to run offices at various points. We are not prepared to suggest areas, from the standpoint of public policy, for branch banking and our opinion and our belief of the attitude of the general public in the territory concerning branch banking, as a general thing, are the same as those described by Mr. Decker yesterday. I think our larger towns would be resentful of an effort or a necessity of having branch banks in their various communities. It is quite likely that the trend may be such that within a few years our people out there may change their attitude in that respect.

However, I feel confident at this time that if legislaion were passed, which directed or made necessary for us immediately to convert our banks into a branch banking system, it would mean the destruction of that business, because I think that it would mean that we would have a new crop of banks formed to take advantage of the feeling existing at the present moment, and it would simply destroy an agency that is there taking care of the business better than it can be through any other arrangement and it would be very very disastrous.

I realize that it may be necessary that branch banking be authorized within certain trade areas. I do not know who will determine those areas. I should hate to try to do it myself.

If that were done, we would be perfectly willing to operate in competition with whatever might develop under a privilege of that kind. But I do believe that it would be destructive and disastrous if a permission of that kind were granted, and at the same time legislation, destructive of the thing which we are undertaking to do, were put into effect.

Now, do not forget this: I think I can show you that my motives and feelings in that statement are sincere, because, in my opinion, if we could to-day convert our entire group into a branch system, I feel satisfied that we could handle that business more profitably and make more money than we can under the group system.

We feel that the benefits from group banking should not be sacrificed, and even though there were a branch banking system I still believe there will be for many years a better and more successful banking service rendered in many communities through the group system as we are operating.

Now, I referred awhile ago to the motives which prompted our undertaking this type of organization.

Gentlemen, I think that you will all admit that if you were living out in Minneapolis and St. Paul and you were engaged in the banking business there and in a position to see the possibility for future development and the carrying on successfully of the business of the territory and you realized that there was no possibility for growth or development within your city, except as the territory which makes it should grow and develop, you would be very much interested in trying to see that that territory outside of your trade area got itself into a position where it would be satisfactorily banked at the earliest possible moment, and that is the only motive which we have in undertaking the job which we are doing. It is for the definite purpose of furnishing banking facilities in each one of the points where we operate, which will have the confidence of the public, which will be in the position of knowing that they need not be fearful of their own single institution, and on account of that fact unwilling to take care of the loans and business in their own community which they should take care of, and who understand that the driving force back of the entire organization is the means and the will to serve those various communities and develop any business that is legitimate in this territory to the limit. That is not altruism. There is nothing to that. That is the way through which our banks have grown in the cities, and it is the only way. That is the means through which the business of the Twin Cities was developed. It is the development of the territory surrounding it, and there is no other way to develop it.

So our purposes are those of self-preservation practically. We want that territory to stand out in a business way. Over very many years the territory of the ninth Federal reserve district was freer from any business and financial difficulties than any other section of the United States. We have always been able on account of the agricultural background to hold ourselves in steady rein and go ahead progressively.

We have gone through a period which has been very unsatisfactory and we are on the way up and we are trying to see that we do not again find ourselves in the difficulties which we have just experienced and through which we have passed.

Now, I am going to state a few things here which I trust, from the questions asked here yesterday, are those things which you are particularly interested in and anxious to have information on. In the questionnaire you asked me to explain fully what control or influence the holding company, or a central bank controlled by the holding company, exercises over the group of banks acquired.

Now, gentlemen, the First Bank Stock Corporation is organized under the laws of Delaware, and I should like to tell you why. In our first consideration of this matter we intended to organize under the laws of Minnesota, which would have given our corporation a double stock liability. That particular feature is one which we would have welcomed in the organization.

However, we transferred the corporate organization to the laws of Delaware for this reason, that under the laws of Minnesota any stockholder of our corporation living in any other State, in case of death, his stock would be subject to inheritance taxes in two or three different States, and we felt it was an unjust thing to ask our people to buy stock when we were covering a wide area, in a corporation where, in case of their death, they would be subject to the inheritance-tax penalties at two or three different points. That was the basis for using the Delaware incorporation. It was not to avoid the double liability on the stock. We did not care anything about that.

Mr. BRAND. Would it interrupt you to ask you a question there?

Mr. WAKEFIELD. No, sir.

Mr. BRAND. What is the liability under the present law of the group banks?

Mr. WAKEFIELD. They have the double liability, but the corporation is the holder of their stock. We would not have had any objection to the double liability of the holding company's stock.

Mr. BRAND. But it is a double liability on the stock of the banks?

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. I do not think you made clear the point you wanted to make in reference to the inheritance tax.

Mr. WAKEFIELD. I think you gentlemen are all familiar with the fact that it has gotten to the point now where different States have passed laws that if a man goes to New York and dies—rather, if he owns stock in Minnesota, we collect an inheritance tax on it in Minnesota.

Mr. GOLDSBOROUGH. You mean two States, and not two or more States?

Mr. WAKEFIELD. It may be many States. There have been cases where the whole stock has been used up in payment of taxes.

Mr. WINGO. Why did you go to Delaware? They do not have it there?

Mr. WAKEFIELD. No, sir.

Mr. SEIBERLING. There is no transfer tax in Delaware?

Mr. WAKEFIELD. No, sir. In our case we have the First Bank Stock Corporation with officers and employees set up to supervise the management of the banks in our group, and in that supervision we go a long ways. We depend upon the officers and directors of the banks, who, by the way, have identically the same responsibility, and they do not avoid it—the same responsibility they have always had, or would have had, and as is true under all corporate ownership, in case of mismanagement. The stockholders are the ones who are obliged to make changes in the directors and officers.

In this case, we feel that we have a much more live and active interest on the part of the stockholders, because the stockholder is the First Bank Stock Corporation, and the First Bank Stock Corporation is following the business of that institution intimately and it will, if anything goes wrong in any single unit in that institution, be in a position of taking an active interest as a stockholder and bring about required changes in a much more satisfactory manner than is ordinarily true of a corporation whose stock is spread over a large group of small stockholders, the interests of which are not definite or active.

Mr. GOODWIN. And perhaps more expeditiously?

Mr. WAKEFIELD. Yes, sir. Our method of conduct is this: No bank has been taken into our organization except upon a complete examination which involved the setting up of a complete set of information for our own office concerning the loans in that bank, and we have a record to start with of the loans in that bank. In all cases, every loan made by officers involving $500 and over are reported to our office in Minneapolis daily and accompanying that loan, if it is a new loan, is a financial statement or a statement of the collateral upon which the loan is made; so that in the case of a poor one being made, we have knowledge of that fact within 24 hours after it has happened.

We have a corps of examiners who are charged with the responsibility of entering and examining those banks not less than two times each year, and who make those examinations and bring them into the office and enter into correspondence with the officers of the banks or discuss with them there anything that they think needs a little attention.

One of the difficulties of the small banker has been this fact, that he has had no opportunity to get in touch with people and avail himself of the modern method of banking—the modern method of determining the value of credits, and our experience is that that group with which we are associated are the happiest bunch of men over the fact they have a chance to sit in and advise, and work out, and find out how a bank should be operated and how loans should be made.

I want to repeat what Mr. Decker said yesterday, that there is much more damage done by a poor loan than there is by not making loans that should be. There is much more harm done by making the loan that is not justified than ever will be created by turning down some one who should have the money.

In connection with all this, I want to say that I have been reading the testimony that has been presented before this committee, and it has been my opinion—and perhaps it is not correct—that there has been in the minds of the members of the committee the need of protecting the borrower.

Now, gentlemen, I want to make this clear. In my opinion, the job this committee has to undertake is to protect the depositor, and the borrower needs no protection. Money is the most competitive commodity in the world. There is not anyone that I ever have known of that can get a monopoly in it. It will move overnight if there is a better place to put it, and I have never seen the time when any business or enterprise that needed capital to develop it did not find it. There will always be varying costs of money, based upon the risks and the type of thing that the money is going into. Some people are willing to take a long risk and a long rate. Others prefer to confine their loans to those which carry no risk and always secure the least possible commercial rate.

In my opinion, Congress nor no one else needs to devote one moment's thought to protecting the borrower. The borrower will take care of himself, and he will get his money at the most reasonable rates possible, where the credit is justified, during whatever condition prevails at that time.

So our supervision of those banks is intimate and very close, because we recognize that in every single institution in our group our responsibility is complete. We have a liability for assessment on stock that we own in these individual banks of 100 per cent. That does not mean anything. Our liability is what is involved in every bank we operate, and it is necessary to see to it that those banks do not have any more difficulties than is reasonable.

Now, then, yesterday questions were asked about the flexibility or the flow of funds through group operation from section to section. I can not speak for any other people in the business, but I am going to make a statement of our own practices in that respect.

We are operating entirely within the ninth Federal reserve district, and there are varying needs and conditions over that district. If we have a bank located at a point where, at a particular time, there is a demand for funds beyond which we have deposits to make loans, we investigate the credit involved, and at the same time the First Bank Stock Corporation has intimate knowledge of the money available to lend in each bank or their condition, and if there is some other bank needing loans, and the loans are good ones, we have no hesitancy in transferring that loan to that particular bank, or to the First National Bank of Minneapolis or the First National Bank of St. Paul, and if a case should develop where there were no funds within the group we will do what we have done in the past. We have 67 banks who are members of the Federal reserve system. The First National Bank of St. Paul and the First National Bank of Minneapolis are both members. We will go to the Federal reserve bank and borrow such money as is required to take care of the reasonable needs of our territory over any particular period. It is our business and what we should do and what the Federal reserve bank is for and what we have done in the past.

In answer to this question—

Upon what principle are you working in determining the geographical area into which your group of banks will be extended—

I desire to say that we have confined ourselves to the ninth Federal reserve district as a matter of principle and I have described the method of audit and examination.

I think, gentlemen, that is all I have to say in the way of a statement at this time.

Mr. Strong. I understood you a few moments ago to say that Congress should devote itself to the protection of the depositor—the man with the money—and give no concern to the man who wanted to borrow money. Is that your position?

Mr. Wakefield. I think so.

Mr. Strong. How many banks are there in your group?

Mr. Wakefield. There are 91 in that list.

Mr. Strong. How many were in the group as originally started?

Mr. Wakefield. Well, there were a few more than that. We had this little company while we were trying to buy banks, and we had 17 banks in that company.

In this information I have given, I have given the percentage of stock owned by the First Bank Stock Corporation in each bank. In two or three banks, you will find we only own the control.

Mr. Strong. But 17 started the group?

Mr. Wakefield. There were 33 banks to start with.

Mr. Strong. Who set the values on those banks, as taken over by your group?

Mr. Wakefield. The First National Bank of St. Paul was an independent institution, and so was the First National Bank of Minneapolis. The value of those 17 banks which we had already purchased was what we paid for them.

Then we had a conference between the people in the three Montana banks, the First St. Paul, and the First Minneapolis, to determine a fair basis upon which they should join.

Mr. STRONG. I have not gotten to that. I am talking about the original group.

Mr. WAKEFIELD. Our original group started with what I have described.

Mr. STRONG. Who set the value on the two big banks in Minneapolis and St. Paul?

Mr. WAKEFIELD. We sat down and took the capital, resources, and earnings, together with the deposits, and figured out a formula which was worked out.

Mr. STRONG. Were you an officer in either bank?

Mr. WAKEFIELD. The First National Bank of Minneapolis.

Mr. STRONG. You set your prices upon your own banks when you started the group?

Mr. WAKEFIELD. We did not. It was a difficult thing to do between the two cities.

Mr. STRONG. You agreed between the two banks how much stock of the holding company you would take for the stock of your banks?

Mr. WAKEFIELD. We agreed upon a formula which the officers thought would be fair, and then that formula and agreement were turned over to a committee of the boards of each of the two banks for review and approval and was finally approved by the board of directors of the two banks.

Mr. STRONG. But the officers of the two banks agreed upon how much stock they would allow themselves for the stock of the two banks?

Mr. WAKEFIELD. Absolutely. Some one had to do that.

Mr. WINGO. Do you not think in that connection it would be wise to have him give the formula?

Mr. WAKEFIELD. I can not——

Mr. STRONG. Do you have any objection to giving us the formula that you used?

Mr. WAKEFIELD. I have described it, but I can not tell you exactly the figures used. But it was based upon this: The First St. Paul had less capital assets than we had and they had less stock, although they had a bank with deposits as great.

Mr. STRONG. Did you have an examination made of each of those banks?

Mr. WAKEFIELD. Yes; they examined ours and we examined theirs.

Mr. STRONG. You jointly agreed on the stock you would allow?

Mr. WAKEFIELD. Yes.

Mr. STRONG. When you came to take in the stock of the other banks you used a different formula? You said how much they should have for the stock?

Mr. WAKEFIELD. In a great many cases they got a better deal than we got ourselves.

Mr. STRONG. I do not know anything about the facts. I expect there were a great many cases where they did not, were there not?

Mr. WAKEFIELD. I can see what you have in your mind, Mr. Strong, and of course any statement that I might make you would feel was probably my opinion. I think it would be propably the best thing for you to find out from a lot of the people who got the stock whether they were treated fairly and are being treated fairly.

Mr. STRONG. They might not know, if they get a dividend, whether they were treated fairly or not.

Mr. WAKEFIELD. Many of the stockholders to-day are receiving greater dividends on their stock which they received than they used to pay themselves in their own banks.

Mr. STRONG. Oh, I realize that combination of money and credit are likely to produce large incomes.

Mr. SEIBERLING. Will you ask him at this point if that applies to the original banks?

Mr. WAKEFIELD. They are receiving identically the same dividends.

Mr. STRONG. But they placed a value on the banks of which they got the stock. I think it is fair to go into this because of the statement you made that Congress should take care of the man who has the money—the depositor—and not the man who has to borrow it. Personally I think that is a peculiar statement.

Mr. WAKEFIELD. The difficulties in our territory have arisen entirely from the difficulties of the depositors.

Mr. STRONG. It has been suggested that I ask you how are the directors in the individual banks of the group elected?

Mr. WAKEFIELD. They are elected by the stockholder which happens to be the First Bank Stock Corporation.

Mr. STRONG. Then they are not elected by the individual banks?

Mr. WAKEFIELD. The First Bank Stock Corporation is the owner of the stock of the banks and is the only person who can elect the directors.

Mr. STRONG. Then you elect the directors in all the banks?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. What dividends on your stock do you pay?

Mr. WAKEFIELD. Our stock is $25 par value and pays a dollar dividend.

Mr. STRONG. What was the original stock of the two banks—the one in St. Paul and the one in Minneapolis?

Mr. WAKEFIELD. Both have $6,000,000 capital.

Mr. STRONG. Both had?

Mr. WAKEFIELD. It is the same to-day.

Mr. STRONG. And they took $6,000,000 of stock from the holding company?

Mr. WAKEFIELD. They had $6,000,000 capital. I have it all in this little booklet. You take our bank, the First National Bank of Minneapolis: It has capital, surplus, and undivided profits of $11,613,170.30.

Mr. STRONG. How much stock did you take in the holding company?

Mr. WAKEFIELD. Let me finish this. All these institutions belong in the First National Bank, and I will tell you this. We have $11,613,170.30 in capital, surplus, and undivided profits in the First National Bank.

We have $2,400,000 in the First Minneapolis Trust Co.

We have $3,697,000 in the First Minneapolis Co.

We have $667,000 in the Minneapolis Trust Joint-Stock Land Bank.

In addition to that we have an equity of a considerable amount in our buildings, which has been charged down.

Now, our total set-up of capital assets that we showed was $22,000,000, and we received $30,000,000 of stock of the First Bank Stock Corporation.

Mr. STRONG. After you figured in all the assets and value you got $8,000,000 more than the figures showed?

Mr. WAKEFIELD. In stock.

Mr. STRONG. In the holding company?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. What did the St. Paul bank get?

Mr. WAKEFIELD. They got $27,000,000, I believe. I can not tell you that exactly. I remember my own figures, because I handled them.

Mr. STRONG. Theirs was also watered—that stock? [Laughter.]

Mr. WAKEFIELD. I do not admit there was any water around the place.

Mr. STRONG. Of course, there could not be any other liquids at the present time. There was some liquid put into it, evidently, anyhow.

Mr. WAKEFIELD. At the time we made this arrangement the stock of the First Natitonal Bank of Minneapolis was selling at $220 a share. The stock that we received—the par value of the stock that we received, which was four shares for one, was $100. Now, I do not think we watered any.

Mr. STRONG. Did you do the same thing with the other banks—increase them in a proportionate amount in your corporation for the stock you took from them?

Mr. WAKEFIELD. If they had an organization that you justify it; yes.

Mr. STRONG. But you passed upon that?

Mr. WAKEFIELD. Yes, sir. In connection with that, every one of these deals was a mutual transaction. There was nobody obliged to sell. That was a mutual agreement.

Mr. STRONG. I know some little banks that were glad to sell.

Mr. WAKEFIELD. I know a lot of them that would be glad to sell.

Mr. STRONG. But it was the most intense pressure upon them anyone could possibly imagine.

Mr. WAKEFIELD. Not in our section.

Mr. STRONG. You feel that branch banking would be all right in the little towns that could not support a regular bank?

Mr. WAKEFIELD. Mr. Strong, I feel that it is almost essential in order to find some means of taking care of these deposits, where there are no banks in those communities—almost essential to get them into some live institution that can furnish the necessary banking facilities.

Mr. STRONG. But you think in the small towns that no one can make enough profit in to support a unit bank, that branch banking should be permitted?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. But in communities where banks can make a regular profit—enough profit to support a regular bank—you do not think Congress should authorize branch banking?

Mr. WAKEFIELD. I think it may be perfectly proper for Congress to authorize branch banking in trade areas, but if they should do it, I think it would be disastrous to force us to discontinue our group banking.

Mr. STRONG. You would have no objection to branch banking operating in your area?

Mr. WAKEFIELD. None at all.

Mr. STRONG. Of course, the argument the branch banker or the man advocating branch banking, might make in your trade area, is that if they are allowed to go in there, they will select not only the profitable banks in the good banking towns, but they will put branches in all towns and that they can do it through teller windows, and give the people banking facilities which your arrangements withhold from them.

Mr. WAKEFIELD. No. If such authority was given, do not ever think that we would be asleep. We would be taking care of those small towns.

Mr. STRONG. With teller windows?

Mr. WAKEFIELD. With all the banking facilities that could be handled profitably in those communities.

Mr. STRONG. But you would be the judge, of course, as to what that town would be entitled to.

Mr. WAKEFIELD. Some one has to be.

Mr. STRONG. You do think the residents of the town should be, but it should be some one in distant control?

Mr. WAKEFIELD. It must be some one who understands that business and knows whether they can operate that branch with profit in that territory.

Mr. STRONG. Do you agree with Mr. Decker—I did not listen very closely to your discourse with regard to the farm problem—do you agree with Mr. Decker's interesting statement yesterday that the farm problem grew out of lack of capital rather than the lack of banking facilities?

Mr. WAKEFIELD. It grew out of too much capital.

Mr. STRONG. Grew out of too much capital?

Mr. WAKEFIELD. Yes, sir. I agree with Mr. Decker that a great deal of our difficulty was occasioned entirely by our banking situation, but not all of it by any means.

Mr. STRONG. You think you had more banks than bankers?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. Are you aware of the fact that just prior to the war the tariff was taken off of agricultural products? We had practically free trade in agricultural products.

Mr. WAKEFIELD. I have been engaged in business in a manner which has kept me alive to the farm difficulties over a great many years.

Mr. STRONG. That being true, you know that as a fact, do you not?

Mr. WAKEFIELD. I do not know a thing about the tariff.

Mr. STRONG. That is one branch of the farm problem you have not followed?

Mr. WAKEFIELD. I do not feel that it has been an important factor in the farm difficulty.

Mr. STRONG. You think it is not important, not having investigated it?

Mr. WAKEFIELD. No; I think—let us delve into that a bit.

Mr. STRONG. All right, delve.

Mr. WAKEFIELD. I will make my statement about farm products in this manner: The products of the farm are primarily food products. The market for those products is dependent upon the needs of the population of the world for food. There is no method or means whereby an extension of that market can be brought about beyond those needs.

It is not as it is with the automobile manufacturer, or other manufacturer of other articles. You can not get a man to buy twice as much food as he needs, although you may induce him, through sales efforts, to buy two automobiles, or half a dozen neckties. It is an absolutely limited market.

The world generally is attempting to produce the food necessary in the various countries, as far as possible in those countries, and, in my opinion, there are no means whereby the United States, as an individual nation, can create a condition which will enable us to produce unlimited quantities of food products and secure an adequate price for them; in other words, in my opinion, the industry of farming in this country must depend primarily upon the domestic market for the sale of its products, and when it reaches beyond that or attempts by any artificial means to provide a market beyond that, they are treading on dangerous ground.

Mr. STRONG. Then you do not think we should attempt to export agricultural products?

Mr. WAKEFIELD. I think it is perfectly legitimate to export all you can, but you are up against all the factors of the world market when you do it.

Mr. STRONG. In your discussion of the farm problem—I want to try to follow you along those lines—you seemed to think that it is wholly a matter of financial trouble, or wholly a financial problem.

Mr. WAKEFIELD. The farm problem?

Mr. STRONG. Yes.

Mr. WAKEFIELD. No; I do not—by no means.

Mr. STRONG. What I wanted to point out was that after the war was over we were the only major country in the world that was flooded with farm products.

Mr. STRONG. Now, as I understand, under your system, so far, you have accepted only banks in communities where you feel a banking institution can make a profit?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. Then it will be necessary for Congress, or by some other means, to provide banking facilities or accommodations by teller windows, or in some way, for those communities that can not support a bank proper?

Mr. WAKEFIELD. Under the present law, there is not any way we could take care of those small communities, and do it in a sound business way.

Mr. STRONG. How do you feel that Congress ought to proceed in its legislation toward permitting branch banking—just simply permit it in trade areas by national banks, unlimited?

Mr. WAKEFIELD. That would require more thought than I have given it, before I could set up a formula.

Mr. STRONG. Do you think trade areas is the proper limitation?

Mr. WAKEFIELD. I do. I do not know how you are going to determine trade areas. There is this thing to think about, that is, when the Federal reserve banks were established, it evidently was in the mind of Congress at that time they were opposed to permitting a central bank in the United States, or a centralized control of credit and of banking facilities, and so they undertook at that time to set up districts, based upon the flow of banking business, and determined on certain areas which, in my opinion, were pretty carefully and pretty successfully worked out, to govern the location of the various Federal reserve banks. There were hearings held in our section, I presume there were in others, at which all people interested might present themselves and their arguments and finally a certain district was located and determined as being the ninth Federal reserve district. Now, in my opinion, that was a thoroughly sound idea. The last thing that we want to see is to find ourselves hitched up body and soul with, we will say, New York City or Wall Street; because we believe if we are permitted to have an independent, strong, institution, with plenty of competition in our territory, that we can serve that territory more intelligently and better than it can be done through any other method.

Mr. STRONG. I know you have said that; but what I am trying to get at is what you think Congress should do with regard to setting up trade areas.

Mr. WAKEFIELD. I think that would have to be left to some kind of commission that could sit down and make a study, the same as they did in establishing the Federal reserve banks, and determine what those should be.

Mr. STRONG. The governor of the Federal Reserve Board when before the committee said, I think, they had a tentative figure of making a division of about 27 areas, if I am correct in that.

Mr. AWALT. Thirty-seven.

Mr. STRONG. Yes; 37 areas.

Mr. AWALT. And afterwards amended it to 50, I believe, Mr Strong.

Mr. STRONG. And afterwards amended it to 50; that would not be in accord with your idea?

Mr. WAKPFIELD. It might. I have not any idea on that particular thing; I do not know just how the country should be divided.

Mr. STRONG. The president of the Federal Reserve Board also said he thought that finally those areas would be broken down and we would have national branch banking, but he did not contemplate that would happen for perhaps 50 years and gave as a reason that they did not have at the present time trained men to handle nation-wide branch banking. Is that in accord with your views?

Mr. WAKEFIELD. I do not know as it is in accord with my views. My views are that I should dislike very, very much ever to see country-wide branch banking in this country. I do not think we would do as well.

Mr. STRONG. Your present idea is it might be confined practically to the 12 Federal reserve systems?

Mr. WAKEFIELD. Yes, sir.

Mr. STRONG. That is what you sought to do in your group bank, in your district?

Mr. WAKEFIELD. Yes, sir.

(At this point Mr. Luce took the chair.)

Mr. LUCE. Did I understand you to say, Mr. Wakefield, that when those banks were taken over you required that each one of them should guarantee its liabilities of the moment?

Mr. WAKEFIELD. Yes. We could not take in a bank and assume undisclosed liabilities that they might have. We made those people stand back of what they gave us in the way of figures.

Mr. LUCE. You referred to the undisclosed liabilities.

Mr. WAKEFIELD. It covers all liabilities.

Mr. LUCE. And how were you able to help out any bank that had suffered as a result of the inflation and was struggling to keep its head above water?

Mr. WAKEFIELD. Well, sir, I will give you a picture. Here is just one instance which just tells that story. This is in a city of 3,000. The largest bank in the community was experiencing an active withdrawal; the bank's reserve account was overdrawn and its cash on hand was less than $1,000. When our examiners reached the scene, they found the town alert with lots of people in front of all three banks, and the public generally disturbed by rumors. This was an old bank with deposit liabilities in excess of a million dollars. The stockholders had previously paid an assessment of 50 per cent. This was very recent. The affiliation was accomplished by our organization of a new corporation, which was supplied with a capital structure of $150,000 and which assumed the former bank's deposit liabilities. The bank pledged all of its assets, including its capital and surplus and, in addition, the stockholders and the directors of the old bank put up a guarantee fund of $200,000 in cash. That was $200,000 on a $100,000 bank and they had already paid a 50 per cent assessment. Now, then, that shows you how far those people would go to prevent a closing in their community, and their one ambition was to save their depositors from being tied up by the failure of the bank, if there was any way to do it.

Mr. LUCE. But your central organization took no risks in the creation of this structure?

Mr. WAKEFIELD. Well, we took some.

Mr. LUCE. And what were they?

Mr. WAKEFIELD. Well, after all of this was done, we do not know whether we are going to come out entirely whole, or not. We figured that if that arrangement did not cost us over $50,000 we would feel we were justified in preserving that town; because it would have involved a large group of banks up and down that territory.

Mr. LUCE. How would that be a loss of $50,000, if all of the liabilities were guaranteed?

Mr. WAKEFIELD. Guaranteed to this extent, that we accepted immediately certain assets and assumed the entire deposit liabilities.

Mr. LUCE. I see.

Mr. WAKEFIELD. The guarantee is not big enough.

Mr. LUCE. Did I understand you aright, also, when I gathered your shares in the holding company are nonassessable?

Mr. WAKEFIELD. The holding company's shares are nonassessable. They are a Delaware corporation.

Mr. LUCE. Is it your judgment the requirement of contribution by owners in case of failure is a wise and admirable thing in the business world?

Mr. WAKEFIELD. Not generally; but I think it is proper in banking.

Mr. LUCE. And why should the owners of a holding company escape these liabilities more than anybody else?

Mr. WAKEFIELD. They have not. They are stockholders in the holding company—the holding company itself is liable for 100 per cent assessment on every bank stock it owns, which comes out of the property of the stockholders of the holding company.

Mr. LUCE. But you are not liable on those holdings in proportion to the old holdings?

Mr. WAKEFIELD. On the individual stock owned in the holding company, we could not levy an assessment.

Mr. LUCE. It has been brought up from time to time that branch banking may at times result in collapse of a huge institution, as took place in Canada in one instance.

Mr. WAKEFIELD. Just one, I think, in the whole history of the country.

Mr. LUCE. That shows the possibility that your holding company might go on the rocks.

Mr. WAKEFIELD. I do not believe it would, but there is a possibility.

Mr. LUCE. The Canadian bank undoubtedly did not believe it would.

Mr. WAKEFIELD. Quite likely.

Mr. LUCE. But an attempt is made to discourage us from instituting branch banking on the ground it once did happen; that once there was a great failure of a bank with many branches, and that establishes the possibility your holding company might, in a period of financial stress, become bankrupt.

Mr. WAKEFIELD. Yes.

Mr. LUCE. Now how do you justify the exemption of your own directors and your own stockholders from the double liability which is required under those circumstances from other corporations?

Mr. WAKEFIELD. Well, my opinion is this, that through a set-up with a capital structure such as we have, the liability, in case of loss of some unit in that group, is far more strongly covered than it would be with an individual liability of a group of stockholders.

Mr. LUCE. Very likely this is a technical question and has no important bearing, but we are confronted with the Canadian episode and it may be proper to inquire as to what would happen under similar circumstances in this country.

Mr. WAKEFIELD. Yes.

Mr. LUCE. Suppose some of the communities in your neighborhood dwindle. There is a story in this morning's paper—or was it yesterday—to the effect that the census enumerators are finding throughout Illinois, I think was the particular locality specified, large numbers of villages that are dwindling and in one case the whole village was sold out at auction—the changing conditions of the time resulting in a dwindling of the smaller communities. What will happen; what course shall you pursue if one of your communities has that experience? Shall you close that bank?

Mr. WAKEFIELD. I think good business judgment would require us to liquidate the institution and close it if we were operating in a town where it was no longer possible to make a profit in doing the business.

Mr. LUCE. Then, your form of doing business does not necessarily assure a continuance of existing banking facilities?

Mr. WAKEFIELD. It certainly assures a continuance if there is enough business there to justify a continuance.

Mr. LUCE. But would it be in the case of competition in a prosperous community?

Mr. WAKEFIELD. Well. competition is the best thing we know of and, if we had competition which took our business away from us, we would probably have to quit and go out of that community. We never have had that experience yet.

Mr. LUCE. I might say, Mr. Wakefield, that your admirable statement covered most of the questions I wanted to ask, but there are one or two questions I would like to ask, particularly in the case of the shifting of funds. We are constantly told in the discussions of this subject that either holding companies or branch banking or any other form of amalgamation will inure to the disadvantage of the smaller communities and will shift funds to the great centers, notably New York and Chicago. In the first place, will you tell us what actually happened, so far as your own experience shows, during the period of the great inflation last summer, when money rose as high as 9 per cent in New York?

Mr. WAKEFIELD. Well, our situation was just this: Some of the banks in our group had funds which they loaned on call in New York. The First National Banks of St. Paul and Minneapolis were loaning money largely on account of the grain situation and our own discounts were running very high, comparatively; so that at no time during that period did we have any surplus funds. We were, most of that time, borrowers at the Federal reserve bank and at no time during that period did we have a dollar of the funds of those two big banks loaned in New York on call, although we could have made double the rate we were getting by putting it there.

Mr. LUCE. How was it in the case of the bank in Fargo, for example?

Mr. WAKEFIELD. That did not.

Mr. LUCE. Suppose it had surplus funds, did those reach New York last fall?

Mr. WAKEFIELD. If they had had surplus funds, they possibly might have loaned; but at that time we had not yet taken complete control of all of these banks and could not regulate or control or direct their loaning, and some of them did have—I know that—all through the period surplus funds loaned in New York.

Mr. LUCE. Of course, what I am driving at is to try to find out whether the holding company or branch bank tends to send money to the spot in the country where the best return can be received for it, to the detriment of local industries requiring funds?

Mr. WAKEFIELD. No; I am positive that does not happen, because it would be the poorest thing we could have happen. You must remember this, that nobody is obliged to do business with a certain bank, and the bank recognizes its responsibility to the business of its community. It must. It does not make any difference what their selfish motives might be, the fact remains they must take care of that business or they can not keep it. And during the period you describe, of all of this inflation, the banks that I know of were loaning money at a fixed arbitrarily low rate to business people, and borrowing money to furnish to them instead of trying to shift it down to where they could make a profit.

Now, then, you are speaking of loaning money on call in New York. There come periods, seasonal periods, in the banking business when every bank may find itself temporarily long on money. Nearly all the banks in this country are paying interest on deposits, and the banker can not sit with that money idle, and the logical and reasonable place for him to loan it is to loan it on call in New York City, because he can get it back at the moment he wants it. In the history of the country there never has been a time, except a very brief period at the opening of the war, when money loaned on call could not be returned at once and immediately. As it is at present, this happens to be right now the time when there is perhaps a greater freedom of money than usual, and there is a considerable amount of it which is loaned in New York on call, and at a very low rate because of the fact there is so much money looking for any price to cover its cost.

Mr. Luce. The argument we most hear here might be illustrated by taking at random Fargo, which comes in my mind: It is urged that if some man is starting in business and desiring to establish some new industry, the success of which is always problematical, and should go to the Fargo bank in such a period as that of last August and ask for a loan, the centralized banking system would say to itself, "We can get a sure thing by loaning this money in New York at 8 per cent; we are not sure this fellow is going to make good, and it is better to send that money to New York at 8 per cent than it is to run any risk with the hope of getting 6 per cent."

Mr. Wakefield. The man that felt that way about it would not stay in business long, would not stay in the banking business very long, because there is not any banker I know anything about who does not take the keenest interest in any business that is going to be conducted and developed in his territory, and he will go just as far as his business judgment will permit to take care of that thing. Banking business is competitive, and if he does not do that he will lose that business; his bank will become known as an institution that is not taking care of the local people and they will go to his competitor. I have not the slightest fear of that sort of thing developing.

Mr. Luce. Possibly others of us do not, but that charge is made and must be met. Carrying that a bit further, it is urged, under the unit-banking system, the president of the local bank has that very keen heart factor at work for the safety of his own institution and the maintenance of his own business and preservation of his position of influence in the community. Now, by such a change as you have brought, the banker has lost some part of his personal anxiety; he no longer depends upon the business of that bank for the safety of his own fortune; he is now dependent upon the prosperity of a large group of banks; and it is suggested that you have thereby diminished his own zeal, caution, prudence, enterprise, and interest in the community; in other words, that all amalgamation tends to destroy local initiative, courage, hope, zeal, and all the other good things involved in it. What do you say to that?

Mr. WAKEFIELD. I would say this: That under the system we are operating our group banks up in the Northwest—I do not know about them anywhere else—it is just exactly the contrary to the thing you have described. If there is any man out there running a bank who thinks he is through or that he has been relieved of any responsibility, we are going to find it out very soon and he won't remain there very long; because in every case we are stockholders of the First Bank Stock Corporation, the success and profits of which are dependent upon each individual unit being successful and making money and going ahead, and that can not be accomplished without that particular institution looking after its territory and taking care of its local business to the limit.

Mr. LUCE. You think the president won't go out on the golf links any more days of the month after that change than before?

Mr. WAKEFIELD. I am dead sure he won't; and perhaps a good deal less.

Mr. LUCE. Now, it is furthermore urged that under chain-banking systems there is an inevitable favoritism to borrowers.

Mr. WAKEFIELD. I do not know what that means. I have never known of favoritism to borrowers.

Mr. LUCE. Well, that is the allegation; that, for example, somebody controls your system. It is the story of all human enterprise that there is some one man at the middle of the thing whose judgment dominates. Now, the allegation is made, under those circumstances, that central man, whose word goes, if he has a prejudice in favor of mining, for example, or against mining, will in the first place favor one particular group of borrowers against another; or, going beyond that, if he has a prejudice within the mining group, he will through his influence turn the money to the advantage of one man and the disadvantage of another man. That charge is being made all the time in the discussion of this subject—that concentration conduces to favoritism.

Mr. WAKEFIELD. Well, I do not know. I have never come in contact with anything of that sort. I have been president of the First National Bank of Minneapolis for some time. Perhaps I might be considered to be the fellow who could do something like that, something such as you describe concerning the bank; but I would hesitate to try to do anything like that with the group of officers in the bank and directors that are in touch with the business of that institution and following it all of the time. And besides that, it would be the poorest business judgment any man could exercise; and most of us like to think we are going to exercise good business judgment.

Mr. LUCE. Very well. Now, turning to another phase of the subject: You know, of course, the proper committee of the House is at present investigating the subject of holding companies in railroad stocks; there is a demand that we investigate holding companies in public-service corporations and very strong and able men have written in the magazines, notably, Professor Ripley, describing what is going on in the way of pyramiding securities and intimating or arguing that harm would come to the country. Now in uniting these bank stocks, there is nothing standing in the way of some super holding company getting a majority of the stock of your group, is there?

Mr. WAKEFIELD. I think it would be practically impossible; but, at the same time, of course there is no way we could prevent stockholders selling their stock and finally finding out that it might be controlled by somebody. I wish there were.

Mr. LUCE. Do you think there would be harm if some second Mr. Insull got into the banking field and got control through this particular method? I want to bring out——

Mr. WAKEFIELD. I will make this statement: I have thought of that a good deal. The purposes of our organization are primarily based upon the desire to have institutions up there that are big enough to take care of the present-day types of business and which are owned and operated by the people living practically within the territory served. Now we have recognized and I have had the question asked by others as to what would prevent some super holding company, such as you describe, stepping in and taking possession and control of our group of banks and our institutions, possibly we will say in New York—that is what most people try to talk about; they seem to think that just the use of the word "Wall Street" is sufficient.

Now my opinion is this: In the first place, I do not think it ever will happen; I should dislike very much to see it happen. On the other hand, if it did happen, and anyone in the organization in New York came out and acquired, through purchase, the controlling interest of the First Bank Stock Corporation, I do not believe there could be any change in policy or any change in degree of service rendered to the communities, or any real practical difference ever made in the conduct of the business; because the business is competitive in that territory and, if any New York institution attempted to operate it against the interests of that terriory, they would destroy the value of the thing they had purchased. And I do not believe it would ever happen, because I think any one that did acquire it would be anxious to protect the value of the holdings and earnings of the thing they purchased, rather than to buy it and destroy it.

Mr. LUCE. I rather think you are right, but a large number of people discussing this question think you are wrong.

Mr. WAKEFIELD. I know it.

Mr. LUCE. So we must try to find out how to meet their arguments, because it is urged, under such circumstances, our banker, Mr. Insull, will then have command of such enormous aggregations of capital that he can—well there are those who say he can ruin the whole United States.

Mr. WAKEFIELD. Well, that could not be, because anybody who finds themselves in a position of having control of that kind, if they are going to keep it at all, must carry on those businesses the way they should be carried on, or else they destroy the very thing they acquired.

Mr. LUCE. Another argument raised against the form of organization you have established is—and I do not use the word with any invidious significance—that it is slippery; it gets out from under the tax laws, it gets out from under the banking laws; that the holding-company idea is not that of openness with the capacity for examination and comprehension which the branch-banking system presents. And, by the way, before you answer I would say that you have not yet quite made clear to me why you have thought the holding system to be superior to the branch-banking system.

Mr. WAKEFIELD. The reason I feel it is superior at the present time is because of the fact that it permits continued operation of unit banks.

Mr. LUCE. That is, the nominal operation; the banks still look like unit banks?

Mr. WAKEFIELD. Are unit banks.

Mr. LUCE. Well, let us see. As I said yesterday, power is the test all the time of what a thing is; not the looks of it, not the name or appearance, or mask under which it works, but power is the test. Now the power, in the case of your banks, has been concentrated in the Twin Cities; you dominate; that is what you went into it for—to dominate.

Mr. WAKEFIELD. All right.

Mr. LUCE. And I do not say that any criticism ought to be made.

Mr. WAKEFIELD. Dominate it for the benefit of the territory in which it is operating.

Mr. LUCE. And for your own profit. Like every business man, you have the double concern of doing somebody else a favor and bringing to yourself a gain. I am a business man myself.

Mr. WAKEFIELD. In answer to that, if you are a business man, then you know mighty well that our form of set-up has shared the prosperity of our big banks with a tremendously greater group of people, and there is not any more money to be made by the individual that did own stock in the First National Bank of Minneapolis under this system than there was under the old holding.

Mr. LUCE. I grant you; but let us get back to the question of why a somewhat obscure, tenuous, and hazy form of organization like a holding company is, in your judgment, superior to a definite, clear, open, above-board form of branch banking.

Mr. WAKEFIELD. Eventually it may not be; but the thing we have done was the result of absolute necessity under the conditions that prevailed. It is the only means to-day whereby any one could step in legally and present to this territory banking institutions that the public have confidence in; it is the only means there is. Now, then, possibly—probably—a branch-banking system, properly determined as to area, may develop and be the solution of it all; but, for the time being, with the public habits and training relating to the operation of a unit bank, the directors and officers of which are living in their community—they are at home—it is so strong that it would be destructive and disastrous to make any change in that.

Mr. LUCE. Will you make a little clearer why any provision on our part for branch banking would, under those circumstances, imperil your own institution?

Mr. WAKEFIELD. Oh, it would not; and I have said before we would be perfectly willing that such provision should be made, and perfectly willing to meet whatever competition is developed for us; but we do not want it made upon the basis which is intended immediately to destroy and put out of business the group system. If a branch bank law were passed to-day, we probably would be the first people to be out in some of these communities making use of it.

Mr. LUCE. One other phase of the subject: When one of the banks in your group has an excess of funds, what do you advise them to do with the excess?

Mr. WAKEFIELD. That depends upon the conditions prevailing. If, as I described awhile ago, we had some other section that was needing money and did not have it, if we could make good loans there, we would certainly advise that other bank to buy some of those loans.

Mr. LUCE. Would you advise them under any circumstances to buy securities?

Mr. WAKEFIELD. Oh, yes. There is a certain amount, a reasonable amount, of marketable securities that are almost essential in any bank.

Mr. LUCE. It has been brought out in our hearings there is a marked tendency to turn banking from what we used to think its proper function—commercial loans—to investment securities. What is the situation in your district in that regard?

Mr. WAKEFIELD. Well, banking and the use of money must always keep up with the times, and if conditions change, so that one type of loan disappears, some new development comes in and takes its place. Take your installment-selling business to-day: The loans to those large corporations that are furnishing funds to carry installment contracts are a substantial factor in banking loans to-day. They did not exist 10 years ago. Money is always seeking the opportunity to take care of development and will always abandon and disappear from businesses that have passed by the need of it.

Mr. LUCE. You see no objection, then, to permitting banks to go into the investment business; that is, you see no harm in the tendency of bankers to become investment bankers?

Mr. WAKEFIELD. I think the banker to-day must be familiar with the investment banking business if he is going to operate successfully.

Mr. LUCE. Is there any attempt made in your district to imitate or to follow the eastern example in giving special protection to savings depositors?

Mr. WAKEFIELD. Well, we have laws covering that in our State institutions that are especially designed to protect the savings depositors. The national bank does not have any special—there is no special provision regarding savings deposits in national banks.

Mr. LUCE. Why should not there be?

Mr. WAKEFIELD. I think the proper banking structure does not require any. There is nobody operating banks that intends to lose any savings deposits.

Mr. LUCE. Oh, not intend to; but we find sometimes in the East, in spite of good intentions, they sometimes do, and we have passed stringent laws preventing the intermingling of funds.

Mr. WAKEFIELD. I think any law of that kind extending to the general banking structure would be disastrous. I think it would be a great disadvantage to the banking business and absolutely unnecessary.

Mr. LUCE. Well you impugn the judgment of the legislators of my State very seriously in your statement.

Mr. WAKEFIELD. That may be true; but I still feel that way about it.

Mr. LUCE. As I have before pointed out in these hearings, we have a law that is very strict that there must be a solid brick wall without any aperture——

Mr. WAKEFIELD. You are from New York?

Mr. LUCE. I am from Massachusetts—between the savings bank and the national bank; because in so many instances have the officers in the national banks been able to lay their hands on the funds of the savings banks.

Mr. WAKEFIELD. Oh, you mean between the same institution, the same crowd operating the two types of institutions?

Mr. LUCE. I mean we go so far as to prevent the two banks from having any physical access to each other.

Mr. WAKEFIELD. Yes; but your national banks in Massachusetts can receive deposits for savings accounts?

Mr. LUCE. They have been coming to do so, lately, and it is perhaps part of my job here to bring to the attention of this committee what we think is the safe and prudent course in that matter.

Mr. WAKEFIELD. I think, if you are looking after the best interests of your people up there, you won't try to interfere with the national banks taking savings deposits.

Mr. LUCE. We are very proud of our mutual savings bank system——

Mr. WAKEFIELD. So are we, and we have some very fine ones.

Mr. LUCE (continuing). Yet we feel the mutual savings banks may interfere with the national banking system.

Mr. WAKEFIELD. I think one of the worst things that could happen would be to require that all savings deposits should be deposited in mutual savings banks; because, when so deposited, they are then available for only one purpose, that is, investment in a very limited type of security and, of course, unavailable for the good of the general business of the country.

Mr. LUCE. Well, my own community differs completely from you, sir. I think that is all the questions I want to ask.

Mr. FORT. Mr. Wakefield, there has been some question about the valuation of stocks for the purpose of an organization like yours. Bank stocks customarily sell in the market away in excess of their capital, surplus, and undivided profit book value, if they are soundly maintained, do they not?

Mr. WAKEFIELD. Yes.

Mr. FORT. And in the fixation of the value at which a bank stock sells, for example, the extent of the assets and services that it has as a fiduciary are always figured in the prospective earnings from them, are they not?

Mr. WAKEFIELD. Yes.

Mr. FORT. And also the rate of earnings of the capital, which would be fixed by the proportion of deposits to capital?

Mr. WAKEFIELD. Yes.

Mr. FORT. Also the value of any special service that the bank may have created which produces earnings?

Mr. WAKEFIELD. Yes.

Mr. FORT. All of those things are reflected in the price, so that the preparation of a formula that could be absolutely uniform would be very difficult, would it not?

Mr. WAKEFIELD. I do not think you could develop one that would apply the same in any large number of cases.

Mr. FORT. A bank with a very small capital and surplus value might have trust estates, earnings on which would make the stock-market value a very high one?

Mr. WAKEFIELD. There are always some unusual conditions in every institution.

Mr. FORT. We had a case in my own State where the sale of the bank was set aside because the selling board of directors had filed a consent to the substitution of another trust company for themselves as trustee under a large estate, and our court held that in itself made the whole transaction of fixing price fraudulent.

Mr. WAKEFIELD. That meant the deprivation of an income piece of business from the institution.

Mr. FORT. Yes; which was in no way reflected in the capital, surplus, and book value.

Mr. WAKEFIELD. Yes.

Mr. FORT. Do you feel, however, if we are definitely, either by failure to legislate or by legislation, to consider group banking as a definite national policy we should in any way regulate the price bases in which banks should be taken into the group?

Mr. WAKEFIELD. No, sir; I do not. I do not see where there can be any possible reason for even any discussion of it.

Mr. FORT. You do not feel there is any hazard, speaking generally now, of individuals who are substantially controlling in a group company purchasing a lot of small banks at deflated values and putting them into holding companies at high values?

Mr. WAKEFIELD. I do not believe—if there is anybody going to do a thing like that they are not serious in the business; they are doing it for a stock-jobbing proposition and manipulation.

Mr. FORT. Exactly. Well, should there be no restriction of any kind of a possibility of that in anything that touches the fundamentals of the Nation as banking does?

Mr. WAKEFIELD. I think the court would protect anybody that was mixed up in anything like that amply under the present law.

Mr. FORT. Has not that been going on, as a matter of fact, actually in taking over the branches of some banks, in some sections of the country?

Mr. WAKEFIELD. Not that I know of; I have never heard of any.

Mr. FORT. We hear rumors of these things, without ability to prove them, that banks have been bought, small banks, by large banks from their own insiders, at highly inflated values, for the purpose of establishing branches.

Mr. WAKEFIELD. I do not know where that could happen; it could not happen in our neighborhood.

Mr. FORT. And you would have no suggestion of any way in which we could protect against it?

Mr. WAKEFIELD. I think the public are amply protected to-day.

Mr. FORT. In setting up your plan, were any banks forced in, forced to join your organization by any competition or threat of competition locally?

Mr. WAKEFIELD. Never.

Mr. FORT. That, however, is a real possibility in a company such as yours, if people chose to use it, is it not?

Mr. WAKEFIELD. I do not think it is a possibility to-day. I can not think or have not been able to think of a single case where an influence of that kind could have been used with any result whatever.

Mr. FORT. Not even if you had first acquired, we will say, in a small town—I see you have in some minor cities two and three banks in your group; the purchase of the first of those banks could be used to afford special accommodations of one sort and another?

Mr. WAKEFIELD. No. I will tell you how that works: We have two banks down there in Austin, Minn. That happens to be the town where I first started in the banking business—southern Minnesota. The First National Bank of Austin was the one for which I first worked. That was owned by the Banfield family down at Austin and was a very successful and good bank. I never even had a conversation with them about that bank, believing they would not want to let go of it; it had been in the family for very many years. The Austin National Bank, in Austin, was saved a few years ago from closing by voluntary contribution from Mr. Hormel, of the George A. Hormel & Co., whose business is located in that town. He found the bank was going to close and stepped in and put $275,000 into it and kept it open, which gave him the ownership of the bank, a business in which he did not want to be engaged. They came to us and wanted us to buy that bank. A few weeks later, the Banfields came up to me and told me they thought the consolidation of those two banks down there would really put that town on the map and make it a worth-while institution and they wanted to come in with us. The Northwest Bancorporation did not have a bank in Austin and I rather expected they would acquire the First National Bank until the owners came voluntarily and asked to be put into our institution. The banks will be consolidated later. Since the Northwest Bancorporation has acquired the third bank in that town.

Mr. FORT. Please get this very clear, Mr. Wakefield: I do not mean to suggest or to intimate that you have done that thing up to date. I think, on the contrary, your and Mr. Decker's organizations have done a very fine job for the Northwest territory; but I am talking in general terms, throughout the United States.

Mr. WAKEFIELD. I see what you have in mind. Let me say this——

Mr. FORT. Now taking your very illustration of Austin, if there are two banks there and you step in and take one, is it not very easily possible that you can, through your greater facilities and other things, competitively force the other bank, willingly or unwillingly, to join your chain?

Mr. WAKEFIELD. We are occupying a great many towns where there are banks not connected with us in existence, and we have a most harmonious arrangement in those towns. I have not heard of a single case where there has been anybody even suggesting there was any thought or any possibility of that sort of thing happening.

Mr. FORT. Well the possibility is there in the power, is it not?

Mr. WAKEFIELD. I think it is. I thing we could go out and just simply raise the deuce in a town and possibly put a bank out of business; but I think it would be the poorest policy on the part of our organization of anything they could do.

Mr. FORT. You could put it out of business or force it to accept an exchange of stock which, in the first instance, it was not willing to accept?

Mr. WAKEFIELD. I rather doubt that. Of course, if we were the only fellows working, we might be able to do something like that.

Mr. FORT. The same thing has been done since the passing of the McFadden bill, by placing a branch of the larger bank in the immediate neighborhood of the smaller unit bank and the smaller unit bank has felt that the part of prudence was to sell out, rather than to continue to buck the competition of the larger organization.

Mr. WAKEFIELD. Of course, that would have to be in a territory where branch banking was permitted.

Mr. FORT. Exactly; but is there any difference in principle as to the possibility of operation between your system and the branch-banking system?

Mr. WAKEFIELD. Well, I think there is very much difference.

Mr. FORT. Why?

Mr. WAKEFIELD. Because our institution differs in that each bank continues its corporate existence, with a group of officers and complete legal organization and must have a real, substantial business to warrant its going in. It would be an entirely different thing to open up a little office here with practically no expense and go ahead and do business.

Mr. FORT. Well, one of the services you can give in a town, and a proper and needed service, undoubtedly, arises from the fact that the local bank has only a 10 per cent loaning limit?

Mr. WAKEFIELD. Yes.

Mr. FORT. And there may be very desirable accounts in that town that need larger accommodation. You can permit the deposit to remain with the small local bank, the whole deposit, but can grant accommodation from your First Minneapolis, can you not?

Mr. WAKEFIELD. Absolutely, and do.

Mr. FORT. That would be rather destructive to the other local bank, would it not?

Mr. WAKEFIELD. No; because the old methods of doing business are still in existence, and wherever it has been the case in any town, where there is a business located that is substantial and their loan requirements have been above the legal limit of the local bank, the local bank has made an arrangement for those people to go to some central bank somewhere and secure additional accommodations, and they are now getting them.

Mr. FORT. And, in a great many instances, they are getting them also from two or three local banks?

Mr. WAKEFIELD. Yes, in some cases.

Mr. FORT. Instead of going to out-of-town people?

Mr. WAKEFIELD. Yes, in some cases, they are.

Mr. FORT. Now I asked a question or two yesterday of Mr. Decker in regard to branch banking, on which I want your views as a banker. Can you see any justification for the branches of the banking system, if we are going to authorize them, paying different rates to depositors on the same class of deposits in different branches?

Mr. WAKEFIELD. Well that would require consideration of the policy of operating the branch bank. I do not know what the answer is, but my first impression would be you would absolutely be required to have a uniform rate; you could not vary those rates. While your funds would be in one place, I do not see just how you could do it.

Mr. FORT. We have in my State savings banks paying as high as 4¾ per cent, credited monthly in some towns; we have other towns where the credit is semimonthly, at 4 per cent, or below. If we were to have this trade-area branch banking, the branch going into the town where the local banks were paying 4¾, would either have to pay that or get no business, would it not—other things being equal as to the solidity and solvency of the banks?

Mr. WAKEFIELD. Well one of the most definitely destructive tendencies in banking competition is that of attempting to pay rates on money greater than really warranted by good sound business judgment.

Mr. FORT. Of course, some mutual savings banks have accumulated surplus enough, which belongs to their depositors, does it not?

Mr. WAKEFIELD. That is true.

Mr. FORT. Now should the branch-banking system be permitted to compete with local banks on interest, or should the rates be uniform throughout the system?

Mr. WAKEFIELD. I do not think anything ought to be done that would prevent competition,—free competition. Now you are speaking of the surplus—

Mr. FORT. Would that include the right to go into a community where the banks were paying 4 per cent and to offer 4¾ for the branch-banking system?

Mr. WAKEFIELD. Well I do not believe competition would be that way.

Mr. FORT. Would it not be, in order to attract deposits, in the first instance?

Mr. WAKEFIELD. Oh, no. I think the tendency would be to lower the rate; because any one who has been in the banking business long knows you can not attract money to you that way and hold it, but that you have to keep it.

Mr. FORT. Unless you first force out all competition.

Mr. WAKEFIELD. It does not make any difference, whether there is open competition there, or not; money won't go at unfair rates; it will find some other source of use. You are speaking of the surplus of mutual savings banks?

Mr. FORT. Yes.

Mr. WAKEFIELD. The committee must keep in mind this, that the mutual savings bank is a nontax-paying institution and, in considering the difference between the two types of institutions, just remember that the tax of the State and National Banks is a very subsantial item of expense.

Mr. LUCE. Might I correct you in one particular: That is not true in my State.

Mr. WAKEFIELD. In mutual savings banks?

Mr. LUCE. Our savings banks pay a tax of one-half of one per cent on their deposits.

Mr. WAKEFIELD. But how does that compare with your National Bank tax?

Mr. LUCE. Well, our national bank system has been thrown into confusion by the action of this particular committee, much to my sorrow. [Laughter.]

Mr. FORT. Then you do not feel, if we are going to authorize any branch banking, that we ought to attempt to have anything to say about the uniformity of the rate, or competitive rate, or anything else?

Mr. WAKEFIELD. No; I think it would be a mistake.

Mr. FORT. We ought to leave it entirely to the working out of the system as it is?

Mr. WAKEFIELD. Yes.

Mr. FORT. Now, I said a while ago one of the bases of calculation of the value of bank stocks is the relation of deposits to capital, the usual rule, I think, being there ought to be about 10 per cent as a maximum.

Mr. WAKEFIELD. About 10 times.

Mr. FORT. Ten times?

Mr. WAKEFIELD. Yes.

Mr. FORT. A system such as yours giving a secondary security in the public mind to the bank in which they deposit, would be able, would it not, to secure deposits in greater volume than the public would generally think appropriate for banks of their capital, if they had no such secondary security?

Mr. WAKEFIELD. Well the facts are that in comparison between the capital requirements that anybody has ventured to even suggest as being adequate of a branch banking system, and the actual capital investment under a group system, we could operate with the same deposits we have to-day, as branch banks, taking any basis I have ever heard of, on a very greatly reduced capital investment.

Mr. FORT. Mr. Wakefield, I am trying to talk general principles and do not question what you gentlemen are doing; I am trying to get at the fundamentals of this question for general use. Now, what I am trying to get at is whether such a system as yours, with a secondary line of defense, will not perhaps open the door to the banking business of America being carried on with a less capital investment than it is now required to have?

Mr. WAKEFIELD. Well, one of the disadvantages of the group system is that it can not do that; that it does require a complete capital structure for each institution, based upon the business in that community.

Mr. FORT. So that, as between these two, if we regarded less capital in banking as a desideratum, would it not be better off under the branch system than it would under the group system?

Mr. WAKEFIELD. If you want to reduce the capital required?

Mr. FORT. If we want to reduce it.

Mr. WAKEFIELD. I think that is true.

Mr. FORT. Now, the reduction phase is of interest only in order to reach small communities than can not earn on a large capital?

Mr. Wakefield. The what?

Mr. Fort. The reduction phase of the capital position—that is, the idea that possibly we might want to reduce the capital anywhere—the reduced capital requirement is of interest only in order to reach those sections which can not earn on the present capital requirement?

Mr. Wakefield. I do not understand just exactly what you have in mind.

Mr. Fort. Here is what I mean: If the branch system can operate on a less capital per volume of deposits than the group system, then it can afford to install branches or teller windows in places where a unit bank could not afford to be set up?

Mr. Wakefield. Surely; in those small towns where to-day the capitalization of an individual unit requires an investment there and an operation that is unprofitable, it is the only means of going into that community. One of the reasons why a branch could go in there is because it would not be required to have the capital investment.

Mr. Fort. But that would not apply to your group system?

Mr. Wakefield. No; that stops the group system.

(The committee thereupon took a recess until 2.30 o'clock p. m.)

AFTER RECESS

The committee reconvened pursuant to the taking of the recess, Hon. E. Hart Fenn presiding.

STATEMENT OF L. E. WAKEFIELD—Resumed

Mr. Wakefield. Mr. Chairman, may I have permission to further explain a little visit Mr. Strong and I had this morning, in which he was discussing my attitude or expression of opinion that we did not need to devote a great deal of time to protecting borrowers?

Mr. Fenn. I think so.

Mr. Wakefield. And he replied to me something along this line—my associates have called my attention to a condition in the record that might be misunderstood—he made the reply, "Then you are in favor of looking after the rich fellow and letting the poor fellow look after himself."

Mr. Wingo. Now, Mr. Chairman, I think, if that explanation is to be made, Mr. Strong ought to be here. Mr. Strong, so far as my recollection is concerned, made no such statement as that.

Mr. Wakefield. It is perfectly agreeable to me.

Mr. Fenn (presiding). Then let us let it rest there.

Mr. Fort. Mr. Wakefield, you have spoken very interestingly of the greater desirability to the bank of local loans over call-money loans. Is it the custom in your territory to expect local borrowers to maintain deposits with the bank bearing some relation to the amount of their borrowings?

Mr. Wakefield. In most cases lines of credit are granted upon the basis of deposits only.

Mr. Fort. So that, where you make a local loan, you get a deposit, say, of 20 per cent normally as an average of the amount of the loan and a maintained balance?

Mr. WAKEFIELD. Your 20 per cent we do not know anything about.
Mr. FORT. You hope for it, but do not get it?
Mr. WAKEFIELD. We would like to get it, if we could, but we do not get it.
Mr. FORT. Ten per cent?
Mr. WAKEFIELD. Well, there is not any set figure, and, in many cases—you take these small banks in the country—many loans are made to people that practically have no balance.
Mr. FORT. Small loans, though?
Mr. WAKEFIELD. Yes.
Mr. FORT. But when you come to your larger loans——
Mr. WAKEFIELD. They are usually based upon a corresponding business.
Mr. FORT. So that one of the direct advantages that is bound to come to a bank that does maintain that policy of local loaning is an increase of deposit accounts?
Mr. WAKEFIELD. Yes.
Mr. FORT. And the ordinary banker, from purely cold-blooded motives, in a time when he has a demand for money locally, knows that he is going to get more money to loan by loaning locally than he will by loaning on call in New York?
Mr. WAKEFIELD. Absolutely. The deposits of every bank come from the community where the bank is located, and, unless the bank carries on and helps the individuals and institutions of that community, it is defeating its own growth and development.
Mr. FORT. So you do not believe there is any serious danger of starving local borrowers for the purpose of taking advantage of the call-loan rate in any section of the country?
Mr. WAKEFIELD. I am positive that there is not.
Mr. FORT. On the other hand, there are some places where the borrowing demand does not equal the resources of the bank, are there not?
Mr. WAKEFIELD. That is true.
Mr. FORT. And those banks turn to the call-loan market, rather than to investments, as their only means of utilizing their funds?
Mr. WAKEFIELD. Or to the purchase of commercial paper in the open market, or to the purchase of acceptances, that type of thing.
Mr. FORT. Now, you have not expressed any opinion that I have heard to-day in regard to the merger of banks. I notice, as I said earlier, that you have in some of your small cities two and three and in some cases, I think, four banks in a single town: Is it the policy of such an institution as yours to maintain all of those local units, or is it your plan ultimately to merge them?
Mr. WAKEFIELD. It is the plan ultimately to put them all together.
Mr. FORT. You feel, then, the effect of your operations will be ultimately to reduce the number of banks?
Mr. WAKEFIELD. Yes.
Mr. FORT. Of course, where you own all of the stock, or substantially all of the stock—I say you; your corporation—the question of the price at which a merger is effected is of slight importance, I mean the price at which the stock of the different banks is taken into account in the merger.
Mr. WAKEFIELD. In a merger?

Mr. FORT. Yes.

Mr. WAKEFIELD. No; where we own the stock of both banks, it is just the assets that are merged, and the business is merged without any regard to price.

Mr. FORT. Have you any views on how far such holding companies as yours and the Northwest Bancorporation, for example, ought to be allowed to merge?

Mr. WAKEFIELD. No. I do not know whether there is any spot—I am satisfied of this, in a territory such as we are occupying, that it would be a great misfortune, in my opinion, if anything were ever done to eliminate the competitive situation that exists there.

Mr. FORT. Then since competition is, in your judgment, as I think it is in that of practically this entire committee, if not all of it, a desirable factor where it can be maintained, would we be doing, in your judgment, what we should not do if we tried to find ways and means of maintaining competition?

Mr. WAKEFIELD. No; I think you would be justified.

Mr. FORT. You have said that it is, and of course we all know that it is, whether the securities are listed or not, always possible that the control of an institution such as your corporation could be bought if somebody wanted to pay the price.

Mr. WAKEFIELD. Yes.

Mr. FORT. It would not be sound policy for the Nation to permit the control of the banking within any Federal reserve district to get into one hand, would it?

Mr. WAKEFIELD. I do not think there would be any danger of that, because if it did it would be a temporary situation. Unquestionably there would be competition come into a situation of that kind.

Mr. FORT. There might in the larger cities; there would not in the smaller ones.

Mr. WAKEFIELD. Well, for instance, if the Northwest Bancorporation and our corporation should see fit to merge, you can not make me believe it would take 60 days for somebody to be in the field setting up a competitive institution.

Mr. FORT. You mean a competitive group institution such as yours?

Mr. WAKEFIELD. Yes; or, if branch banking were in existence, competing branch bank.

Mr. FORT. You do not think such an institution as that would find any excuse to put a bank into some of those smaller towns when the local bank was already sufficient?

Mr. WAKEFIELD. I do not think there is going to be—in the little towns such as I have described this morning, I do not think there is ever going to be any competition in those towns; because I do not think there can be.

Mr. FORT. Well by "little towns," you mean, perhaps a different thing from what I mean.

Mr. WAKEFIELD. A town where there are four or five or six hundred depositors.

Mr. FORT. I mean a town of four or five or six thousand people.

Mr. WAKEFIELD. Oh, I think those towns are big enough for two banks.

Mr. FORT. But if you have one and the Northwest Bancorporation has the other and you consolidate the ownership of the two corporations, even without formal consolidation——

Mr. WAKEFIELD. I think there would be another bank in that town.

Mr. FORT. You do?

Mr. WAKEFIELD. Yes.

Mr. FORT. That, however, would rest with the comptroller and the State authorities?

Mr. WAKEFIELD. Yes.

Mr. FORT. And there would have to be proof of the need, would there not?

Mr. WAKEFIELD. That is not going to be difficult to supply, the need of competition in a substantial town, is it?

Mr. FORT. I do not know. How do you operate your organization, in view of the provisions of the Clayton law on directorates?

Mr. WAKEFIELD. You see we have no—our directorates in each of those banks are entirely different people; there is no one connected with the First Bank Stock Corporation who is either an officer or a director of the group of institutions of any of them.

Mr. FORT. There is not?

Mr. WAKEFIELD. No.

Mr. FORT. That confirms as a policy what some of us have believed, namely, that if we are to permit any group ownership, we should insist upon at least a majority of the directorates being local.

Mr. WAKEFIELD. Oh, yes.

Mr. FORT. In each bank.

Mr. WAKEFIELD. Yes.

Mr. FORT. You would feel that is a sound policy?

Mr. WAKEFIELD. Well, it is our policy. Our policy is that the officers and directors of the banks in our group are 100 per cent local people.

Mr. FORT. So that you feel——

Mr. WAKEFIELD. Mr. Fort, Mr. Washburn corrects me to this extent: You asked me about the directorates?

Mr. FORT. Yes.

Mr. WAKEFIELD. Of course, there are officers of the individual banks who are directors of the First Bank Stock Corporation.

Mr. FORT. Oh, I understood that. Now, how do you handle this situation: Your directors, if you have taken all of the stock over in the First Bank Stock Corporation, your local directors have no actual capital stock ownership in the bank of which they are directors?

Mr. WAKEFIELD. They are required to buy; a man is required to buy the number of shares to qualify as a director, which he owns outright.

Mr. FORT. He buys them through you?

Mr. WAKEFIELD. Yes.

Mr. FORT. You would have to keep some string on them so that he can not resell them if he is out as a director, would you not?

Mr. WAKEFIELD. We try to.

Mr. FORT. I suppose you are advised as to whether that is strictly legal?

Mr. WAKEFIELD. Well, we have used good attorneys, I think.

Mr. FORT. But the maximum, then, of the director's liability of individual loss through mismanagement is his holding of that minor amount of qualifying shares—say, 10 shares?

Mr. WAKEFIELD. Oh, in our case, where we have directors, they are substantial owners of stock in the First Bank Stock Corporation.

Mr. FORT. But that loss that may result through local mismanagement is pretty widely cushioned by the holding of the first bank stock?

Mr. WAKEFIELD. Yes.

Mr. FORT. So that you have not the same protection, quite, that the ordinary bank has where their directors, as they do in most cases, actually own control of these smaller banks?

Mr. WAKEFIELD. Were you here when I described our method?

Mr. FORT. Part of it; not all of it. I happen to be on the Rules Committee and had to attend a meeting of that committee, and I want to say, apologetically to the committee and the witness, my absence was occasioned by the fact I had to attend another committee meeting.

Mr. WAKEFIELD. I think I showed we have been keeping track of that and followed that thing, so that that responsibility is complete.

Mr. FORT. All right; I won't ask you to go back over that. Now, you have said, and Mr. Decker said—I think you have said; I know he did—that we should be very slow to pass any legislation on this general subject, because of a lack of sufficient information on which to proceed at the present time. It seems quite clear from your description of your set-up that a properly-managed group (and it sounds as though your management was entirely proper) might be a very considerable public value and relatively small public injury, but it is a fact, is it not, Mr. Wakefield, the plan does open itself, under improper management, to grave dangers?

Mr. WAKEFIELD. Well, I am glad you mentioned that point, because I would like to state right here our feeling is that if this development, this type of group banking, is to continue, it ought to be accompanied by a provision for supervision of the holding company and the whole institution, and examination and control by the comptroller's office, just the same as the bank is now. And that ought to be done; we are anxious that it be done, because of the fact we recognize the weakness you have just described and the possibility that somebody may, possibly, try to start a group of banks, not with the intention of handling them in the interest of the community, but as a mean of making money out of the transfer of stock, or something else, and which, in case they did and there was a failure of that sort of institution, would be extremely injurious to us.

Mr. FORT. And have you any special regulations in mind that we should consider the adoption of as relating to group banking, other than that of inspection and supervision?

Mr. WAKEFIELD. I have not gone far enough in the consideration of that topic to formulate a definite proposal. I think we could; I think we could work out a set of regulations that might be very beneficial, if given time.

Mr. FORT. My own feeling is that nobody can advise this committee so well as to what we ought to do, to guard against dishonest or improper management, as an honest man running a thing properly; because he can see the hazards much more clearly than we can see them.

Mr. WAKEFIELD. I am quite sure, if we were requested to do it, we could develop a set of suggestions.

Mr. FORT. I, for one, would be delighted if you would do so and submit them to the committee—at your leisure, I mean. I do not know there is any objection to that. We are not going to settle this thing to-morrow and pass a law the day after.

Mr. WAKEFIELD. Yes.

Mr. FORT. It is a fact, Mr. Wakefield, is it not, that the larger an institution becomes, the more completely the management in everything but policy passes to the chief executive head and out of the hands of the board of directors, whether it is banking or any other form of industry?

Mr. WAKEFIELD. That depends on two or three factors, I think, Mr. Fort. Where you have a very large board of directors of any big corporation, especially a bank, it is not possible to keep all of that board intimately in the affairs of the bank; but that is usually covered by the formation of an executive committee, or management committee, which is a smaller group of directors, who do have access to the affairs almost daily of the ordinary bank, and do keep in very close touch with them. I do not believe a single individual, no matter how big the institution may be, actually goes off and formulates all of the policies and uses his own judgment without advice and consultation.

Mr. FORT. No; I said the matters of policy are for the board; but, after the policies are once settled, the executive of an institution such as this you are managing has very wide discretion.

Mr. WAKEFIELD. And responsibility.

Mr. FORT. And can wreck or make the institution pretty much before his board knows very much of one thing or the other about it.

Mr. WAKEFIELD. I do not think that would be true in a bank.

Mr. FORT. Well it has been almost if not quite true in some.

Mr. WAKEFIELD. Well, it would not be true in the banks I am familiar with.

Mr. FORT. Do you think the 10 per cent loan limit is big enough for all essential banking purposes?

Mr. WAKEFIELD. Yes; I do.

Mr. FORT. With the modern shift of banking from commercial paper to collateral loans, should we consider, particularly in a group system like yours, or branch system, the limitation of the amount that might be loaned on a single collateral; that is, we will say, on United States Steel stock?

Mr. WAKEFIELD. That is a new thought to me. That is, you might have a dozen different loans, all with the same collateral.

Mr. FORT. Yes.

Mr. WAKEFIELD. In a total amount equaling considerably more than 10 per cent?

Mr. FORT. The average banker makes his loan on collateral, without regard to the name of the maker.

Mr. WAKEFIELD. There is a question in my mind whether a definite legal restriction might not cause some confusion or difficulty in certain cases.

Mr. FORT. Well, I am thinking particularly of the unlisted local stocks.

Mr. WAKEFIELD. Of course, there again you have to go back to the fact that if the management of the bank, the people in charge of making loans, do not use good judgment, I do not believe you can make legislation that is going to furnish a substitute for managerial capacity and ability to run institutions that ought to exist in good banks.

Mr. FORT. I agree there; but, at the same time, we have put 10 per cent limit on the individual loans.

Mr. WAKEFIELD. Yes.

Mr. FORT. Because we felt we ought not to allow the power to the individual who was a bad banker to go beyond that. The question is whether we should not parallel that with reference to the collateral, with the developments in modern banking.

Mr. WAKEFIELD. I could not answer that offhand.

Mr. FORT. In such an organization as yours should we permit cross loans on collateral; in other words, should your First National Bank of Minneapolis make collateral loans based on the stock of the First Bank Stock Corporation?

Mr. WAKEFIELD. I do not think any bank owned by a holding company such as ours should be permitted to loan a dollar on the stock of the holding company. I think it is just the same thing, in effect, as though you took the First National Bank of Minneapolis and permitted it to loan on the stock of the First National Bank, which has never been done.

Mr. FORT. How about affiliated corporations and things of that sort—the same rule?

Mr. WAKEFIELD. The same rule.

Mr. FORT. Nor should the affiliated corporation be allowed to loan on the bank stock, should it?

Mr. WAKEFIELD. No.

Mr. FORT. And in places where ownership of stocks is permitted by banks or trust companies, ownership for their own account of stock in other banks or trust companies, cross ownership ought not to be permitted there, should it?

Mr. WAKEFIELD. We do not have any of it; we are not permitted to do that.

Mr. FORT. No; but there are a great many places where they are.

Mr. WAKEFIELD. I do not understand just how that would work.

Mr. FORT. In my own State a bank may own stocks more freely, for instance, than a fire insurance company, with less restriction on the type of stock that may be bought. Assuming that one trust company owns the stock of another trust company, it should not be permitted that the second trust company should own stock in the first?

Mr. WAKEFIELD. I do not think that one trust company—that a trust company ought to be permitted to own stock of another trust company.

Mr. FORT. Nor to loan on it?

Mr. WAKEFIELD. No—well, yes.

Mr. FORT. I mean nor loan on it if it were affiliated in any sense, directly or indirectly?

Mr. WAKEFIELD. Yes.

Mr. FORT. I think that is all. Thank you very much, Mr. Wakefield.

Mr. BEEDY. Did you testify as to the par value of your shares in the holding company?

Mr. WAKEFIELD. Yes; I described the entire thing.

Mr. BEEDY. And what was the par value?

Mr. WAKEFIELD. $25.

Mr. BEEDY. And when you exchanged stock in banks which you took over for shares in your holding company what was your method of ascertaining values? Did you cover that?

Mr. WAKEFIELD. I covered that with Mr. Strong, and I guess somebody else asked me all of those questions.

Mr. BEEDY. Did you trade in your holding stock-company shares as of on the basis of $25 per share.

Mr. WAKEFIELD. Yes.

Mr. BEEDY. Irrespective of what the market value might have been?

Mr. WAKEFIELD. Yes.

Mr. BEEDY. And have you fixed upon any method of attempting to approximate a uniform return on the investment to all shareholders?

Mr. WAKEFIELD. No. The situation existing in one bank that was taken in was entirely different from that in another, and the arrangement was an attempt to be absolutely fair under all the circumstances with the people that held the stock.

Mr. BEEDY. But the conditions were so diverse it was practically impossible to approximate an equal return on the investment?

Mr. WAKEFIELD. Yes. Well, Mr. Beedy, we have had cases of where we have taken banks, where the stockholders of that bank not only waived their capital and surplus accounts but put up additional cash to guarantee the deposits that were taken over, and then turned around and bought stock in the holding company.

Mr. BEEDY. You testified about the ownership of stock in the holding company by directors. I presume you were talking about directors in the holding company?

Mr. WAKEFIELD. No.

Mr. BEEDY. Directors in the various banks?

Mr. WAKEFIELD. Directors in the various banks.

Mr. BEEDY. Are you familiar with the legal requirement as to ownership?

Mr. WAKEFIELD. In a bank?

Mr. BEEDY. Yes.

Mr. WAKEFIELD. Yes.

Mr. BEEDY. And you said you were attempting to keep some strings on this stock held by directors. Will you explain that to us?

Mr. WAKEFIELD. We have not any string on that stock that could be enforced, because you can not make it.

Mr. BEEDY. That is, all this stock in the holding company that is owned by the directors is owned as of their own right.

Mr. WAKEFIELD. Absolutely, in the holding company; but what you are referring to, really, is the qualifying shares that a man has in the individual bank.

Mr. BEEDY. Yes; that is it.

Mr. WAKEFIELD. And those shares which he has to qualify as a director in that bank, if it were attempted to enforce any agreement and he did not want it enforced, we could not do it.

Mr. BEEDY. That is, you have no legal hold on those shares?

Mr. WAKEFIELD. No legal hold on those shares whatsoever.

Mr. BEEDY. But may have a moral hold on them?

Mr. WAKEFIELD. We have a gentleman's agreement.

Mr. BEEDY. That is all.

Mr. GOODWIN. I just want to ask a few questions, Mr. Wakefield, in reference to country banks. The farm-mortgage loan business has practically disappeared from the country banks as an item of profit and revenue?

Mr. WAKEFIELD. I think that is true.

Mr. GOODWIN. Loaning under the McFadden act, national banks are permitted to loan on village property, both business and home property?

Mr. WAKEFIELD. Up to a certain amount.

Mr. GOODWIN. Up to a certain amount?

Mr. WAKEFIELD. Yes.

Mr. GOODWIN. Those kinds of loans are rather precarious, are they not, in this particular day, when chain stores are entering the field of commercial enterprise in the small towns and villages throughout our State and other States?

Mr. WAKEFIELD. Well, Mr. Goodwin, it has been my observation, as far as values in the small towns are concerned, the chain-store unit has sort of strengthened the market and made a little rise in values there.

Mr. GOODWIN. But the country bank is a little timid about loaning on village property, as a rule, within the bounds of safety?

Mr. WAKEFIELD. Yes; they have to be rather conservative, due to the fact there is but little of a market in a small country town for houses and other pieces of real estate.

Mr. GOODWIN. The par clearance of checks has also reduced the revenue of country banks to some extent; at least, those who are members of the Federal reserve?

Mr. WAKEFIELD. Yes; but that has been partially corrected.

Mr. GOODWIN. Now, what other avenues are there left for the country bank, out of which it can make a profit, so that it can exist?

Mr. WAKEFIELD. Practically the only thing left is the privilege of doing a commercial banking business; that means receiving deposits and loaning those in a commercial way and making a return.

Mr. GOODWIN. Has it been your experience that the ordinary country banker is sufficiently familiar with the value of bonds so that he can make a loan and safe investment?

Mr. WAKEFIELD. I think it has been very perplexing to the country banker who has found it necessary to buy securities, due to the fact of his unfamiliarity with them and his lack of a source of his own through which he could secure the right kind of information concerning them.

Mr. GOODWIN. And through your organization you are in a position where you can advise the members of your group as to what investments, in the way of bonds, are safe and can prudently and profitably be made?

Mr. WAKEFIELD. We have an expert bondman and a department in the central office of our corporation, charged with the responsibility of buying all bonds that may go into the bank and with the responsibility of having those checked up concerning conditions that may make it advisable to move them out, at all times, and that is all that department has to do. It is not engaged in buying or selling bonds, or marketing them; its job is to use all of the statistical and other information which we possess, and expert knowledge, to buy the right kind of bonds for our banks.

Mr. GOODWIN. It has been suggested in the line of Mr. Luce's questioning this morning, in regard to favortism, that there may be institutions or individuals who may be entitled to credit but who can not obtain credit because of conflicting interests that they have in reference to some of the stockholders or directors of a holding company. Is there anything to that intimation?

Mr. WAKEFIELD. You have used the words "holding company," Mr. Goodwin, and I have had that same expression made concerning an individual bank. The same thing would be true. In my experience, I have never known of a case of where a stockholder or director of an institution, particularly a banker, where he was interested in a line in competition with some other man doing business with the bank, where we have had any suggestion that we should not go right along and take care of the other fellow. And it would not be possible to have that in your organization; if it were, that man would not be a good director.

Mr. GOODWIN. It also has been suggested that contractors who employ union labor have been discriminated against. Have you found any such situation in your experience?

Mr. WAKEFIELD. I never heard—I never knew, myself, whether a man employed union labor or not, so far as the contracting business was concerned.

Mr. GOODWIN. I think that is all.

Mr. LETTS. Mr. Wakefield, your company is incorporated, of course?

Mr. WAKEFIELD. Yes.

Mr. LETTS. Under what law?

Mr. WAKEFIELD. Delaware.

Mr. LETTS. You said this morning something about going down to Delaware, because you could avoid difficulties with respect to the inheritance tax.

Mr. WAKEFIELD. That is true.

Mr. LETTS. And you said something about double liability—if you organized in Minnesota, you would be subject to the double liability?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. Is that true as to the holding company?

Mr. WAKEFIELD. It is true as to any company not a manufacturing corporation in Minnesota.

Mr. LETTS. I see. However, by going to Delaware, you nevertheless have retained the corporate entities as you found them with respect to the banking units?

Mr. WAKEFIELD. Oh, absolutely.

Mr. LETTS. You have not reorganized them in any way?

Mr. WAKEFIELD. Oh, no.

Mr. LETTS. And, for the most part, I suppose the banks connected with you in Minnesota are organized under the laws of Minnesota?

Mr. WAKEFIELD. No. Out of the 91 banks, 67 of them are national banks. There are some State banks; the balance are national banks.

Mr. LETTS. It will be your purpose from time to time to take State banks as well as national banks into your organization?

Mr. WAKEFIELD. We have not hesitated to take a bank, State or National, and have up to date continued the same corporate existence that it had before; but in cases where it was necessary, with one exception, to organize a new bank, that has been a national bank; and that one case where it was necessary and we did not have a national bank was where it would have necessitated carrying it over the week end, and there was one day in there and we could not wait to have the charter granted in Washington.

Mr. LETTS. You are authorized to do almost any kind of business, are you not?

Mr. WAKEFIELD. Well, sir, I have not read what the lawyers put into the powers of that corporation; but I imagine they will let you do almost anything.

Mr. LETTS. And you have up to date proceeded to conduct a banking business through these various units?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. And you have your securities corporation?

Mr. WAKEFIELD. Yes. We have a securities company. The capital and surplus in the securities company amounts to seven and a half million dollars.

Mr. LETTS. And you have a financing company called the First Bancredit Corporation?

Mr. WAKEFIELD. Yes. That is a small finance company which was organized to loan money to people building new homes, small homes, and is handled in this manner—that there are certain lumber dealers out through that territory who want to furnish the materials for somebody who is going to build a house, and they will take a second mortgage on the monthly payment plan. Then if their statement is satisfactory and they guarantee that to us we advance them the money.

Mr. LETTS. And is that agency through which your customers are permitted to finance the purchase of automobiles?

Mr. WAKEFIELD. No; we do no automobile business.

Mr. LETTS. Nothing like that?

Mr. WAKEFIELD. No.

Mr. LETTS. Or household devices?

Mr. WAKEFIELD. Well, we do expect to do that; as that business grows, as we can find the places to do that business, we are going to do some.

Mr. LETTS. Of course, and what you call the Bank Credit Corporation——

Mr. WAKEFIELD. The First Bank Credit Corporation.

Mr. LETTS (continuing). Is an organization designed to do just that sort of thing?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. Do you expect to do any insurance business?

Mr. WAKEFIELD. No.

Mr. LETTS. Life, accident, fire, or otherwise?
Mr. WAKEFIELD. No.
Mr. LETTS. You could?
Mr. WAKEFIELD. No; the banks—some of our banks in the country have been for years agencies for insurance companies; but you meant, when you said, "to do an insurance business," to organize an insurance company and run it?
Mr. LETTS. I mean a place for issuing policies of any kind.
Mr. WAKEFIELD. Oh, no; absolutely not.
Mr. LETTS. Or operating agencies, or anything of that kind?
Mr. WAKEFIELD. No.
Mr. LETTS. Now, you have been in existence about eight months, have you?
Mr. WAKEFIELD. Yes; just about.
Mr. LETTS. And during that time you have acquired 91 banks?
Mr. WAKEFIELD. Ninety-one banks.
Mr. LETTS. And amassed a large capital, of course?
Mr. WAKEFIELD. Yes.
Mr. LETTS. It is your purpose to enlarge, to grow?
Mr. WAKEFIELD. We want to stay right in the field and fill it as fully as possible. Now, what that will involve I do not know.
Mr. LETTS. The Northwest Bancorporation is two or three months older than you?
Mr. WAKEFIELD. Yes; six months, probably.
Mr. LETTS. And they have been equally successful, I take it?
Mr. WAKEFIELD. I think so; at least equally. [Laughter.]
Mr. LETTS. I see there is a very friendly relationship between you gentlemen, and I am glad to see that, of course. How long would it takes your organization and the Northwest Bancorporation to control the financial life and activities of the Federal reserve district in which you are located?
Mr. WAKEFIELD. I do not think they could ever do it.
Mr. LETTS. You do not think it would be possible, even if you might desire, eventually, to become a monopoly in that regard?
Mr. WAKEFIELD. No; I do not. I feel very sure that it would not be possible.
Mr. LETTS. From the standpoint of returns to your stockholders, would it be desirable if you could?
Mr. WAKEFIELD. No; it would be destructive.
Mr. LETTS. Why do you say that?
Mr. WAKEFIELD. I say that for this reason, that if any operation of that kind ever took effect, there is plenty of the business, what we call choice business of the territory, that would leave us and go right out into Chicago, or somewhere else. We are constantly in competition, in the banking business, with New York, Chicago, and other centers.
Mr. LETTS. Have you been approached to go into an amalgamation which would cover the country?
Mr. WAKEFIELD. We have never had one suggestion or word from anybody in the world indicating or discussing a matter of that kind.
Mr. LETTS. When one sees how quickly you have grown, to such proportions, it makes us wonder just how long it might require a group of men to exercise a very great influence over the activities

of the whole country by joining hands. That is the reason I am asking that question.

Mr. WAKEFIELD. We have never heard of it.

Mr. LETTS. You now have about eight banks in Minneapolis?

Mr. WAKEFIELD. You say "we have?"

Mr. LETTS. Yes.

Mr. WAKEFIELD. Yes.

Mr. LETTS. And six in St. Paul?

Mr. WAKEFIELD. I think so.

Mr. LETTS. How many does the Northwest Bancorporation have in Minneapolis; can you tell me?

Mr. WAKEFIELD. They have more; I think nine.

Mr. LETTS. How many do they have in St. Paul?

Mr. WAKEFIELD. One bank.

Mr. LETTS. All told, can you tell us how many there are in the two cities? Just approximately.

Mr. WAKEFIELD. In the two cities?

Mr. LETTS. Yes.

Mr. WAKEFIELD. Just about 50 banks—27 in Minneapolis and 23 in St. Paul.

Mr. LETTS. You have not gone into Iowa?

Mr. WAKEFIELD. No, sir.

Mr. LETTS. You are confining your activities within the Federal reserve district?

Mr. WAKEFIELD. Yes; it has been our policy to do that.

Mr. LETTS. That is a present policy, of course, and one which may be changed at any time. You are quite young.

Mr. WAKEFIELD. I will have to have some pretty good argument advanced before that policy is changed.

Mr. LETTS. Have you found it advisable to adopt that as a policy?

Mr. WAKEFIELD. Well, I do not know that I can answer that question fully. I will say this, that we are not seeking to have control over or responsibility for a particular sized institution or anything of that sort. We do feel our obligation to the particular territory we are in and we have felt that we had all the responsibility that we want within the territory that we are covering.

Mr. LETTS. How is that responsibility fixed? Is that because of the trade conditions?

Mr. WAKEFIELD. No; I would not say that. You take the territory that the Northwest Bancorporation has gone into. It has a very close contact with our territory.

Mr. LETTS. You speak of your responsibility. What responsibility do you have in respect to Montana?

Mr. WAKEFIELD. Well, we are in the position, in our group, of having the large banking interests on our hands out in that territory.

Mr. LETTS. Is that because of investments out there or business?

Mr. WAKEFIELD. Because it is in the ninth Federal reserve district.

Mr. LETTS. That is rather arbitrary from your point of view, is it not?

Mr. WAKEFIELD. I explained this morning the ninth Federal reserve district, under the set-up, did cover pretty well the territory under the flow of banking business, back and forth.

Mr. LETTS. Will it be your policy to serve the smaller communities by branches? You have suggested that that, in your judgment, is the proper way to serve the smaller community, and I am wondering whether, in deliberating upon your policy, you have deemed it necessary for you to render that service?

Mr. WAKEFIELD. Our policy would be to go just as far as the law will permit in supplying the right kind of banking facilities in the territory in which we operate. If it is a branch-banking system, we will do it. We will go just as far as the particular system will justify that we go.

Mr. LETTS. You, of course, in allowing these banks to affiliate with you, have only taken the strong banks, and I think that is proper because you want your venture to be a success, of course.

Mr. WAKEFIELD. You are mistaken. There are 19 banks which we have taken which required a complete recapitalization. That does not mean that they are strong banks.

Mr. LETTS. Were those ones with which you started out originally?

Mr. WAKEFIELD. No; those banks were strong.

Mr. LETTS. Then, what actuated you to take in these weak banks? What was the purpose behind it?

Mr. WAKEFIELD. Just this: That if we could, without loss, take over a situation where there was bound to be a closing and a liquidation of a bank and tying up of the deposits of that town, I feel certain that we have rendered that community a tremendous service if we have been able to work with the stockholders and directors of that bank which was going to close, and provide a means where a new bank was created, and kept those funds, as liquid deposits, in those communities.

Mr. LETTS. And you saved those?

Mr. WAKEFIELD. Yes, sir; and that was the main part of this organization—to attempt to arrest the tying up of banking deposits and keep them in the community.

Mr. LETTS. The Northwest Bancorporation shares with you that responsibility?

Mr. WAKEFIELD. Yes, sir; and have done a lot of it.

Mr. LETTS. Have they done their part in preventing disasters?

Mr. WAKEFIELD. Absolutely; they are on the job every day.

Mr. LETTS. Now, how can you decide whether a given responsibility is yours or the other fellow's?

Mr. WEKEFIELD. It is usually decided automatically by this fact: If that bank has for many years been our customer——

Mr. LETTS. Then it is your problem?

Mr. WAKEFIELD. Yes, sir; and we go there and try to take care of it. Neither one of us is running into those things head over heels, you understand.

Mr. LETTS. I understand that, and I can see just what you are trying to explain. When you have a choice in the matter you only take in strong banks; but when it is necessary to save a situation in the territory, you go to a bank in distress?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. That is often done whether you are in a group or otherwise?

Mr. WAKEFIELD. We could not do that without the group system. If we were just operating our bank, all we could do is make some loans and carry them as far as possible.

Mr. LETTS. In this way, it permits you to reorganize it and put it on a firm basis?

Mr. WAKEFIELD. Yes, sir.

Mr. LETTS. I thank you very much. I think that is all.

Mr. SEIBERLING. Mr. Wakefield, you said that the principal reason why you were incorporated under the laws of Delaware was on account of the inheritance tax?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. I assume you do not know that under the Federal law you are allowed credit up to 80 per cent of the Federal tax for all taxes paid in other States?

Mr. WAKEFIELD. I am talking about the conflict of State inheritance taxes.

Mr. SEIBERLING. You can not get out of the State inheritance taxes, because you are incorporated in Delaware.

Mr. WAKEFIELD. All right; what State are you from?

Mr. SEIBERLING. I am from Ohio.

Mr. WAKEFIELD. Do you own stock in a corporation? If you own stock in Minnesota, Minnesota is going to collect inheritance tax on that stock.

Mr. SEIBERLING. I am going to get credit for that on my Federal tax.

Mr. WAKEFIELD. But you are going to pay Ohio's tax, too.

Mr. SEIBERLING. And I will get credit for that on the Federal tax. The fact you are incorporated in Delaware does not cost your stockholders a cent less for Federal taxes than if you were incorporated in Minnesota.

Mr. WAKEFIELD. Well, all I know is that our attorneys, who looked into the original set-up, insisted that we be not incorporated in Minnesota.

Mr. SEIBERLING. It is true that you get credit up to 80 per cent for all inheritance taxes paid to the States on your Federal tax.

Mr. WAKEFIELD. That is a legal question about which I am not competent to talk. I am not a lawyer. The statement I have made is the judgment of the attorneys we had to look over the situation, and I am quite sure if you will take the individual cases and look them over you will find it is a serious situation.

Mr. SEIBERLING. But assuming my statement to be true, and that you get credit up to 80 per cent on your Federal taxes for taxes paid in other States, your reason that you advance for incorporating in Delaware falls, does it not?

Mr. WAKEFIELD. I do not think that allowance on the Federal tax compensates for the situation.

Mr. WINGO. In those States that have reciprocity, you would get the benefit of that. Minnesota, of course, is not a reciprocity State.

Mr. WAKEFIELD. We have a very difficult situation there in that respect.

Mr. SEIBERLING. You do not think the escape of the double liability is any feature of your organization?

Mr. WAKEFIELD. That particular thing, in the discussions at the time of our organization, when it was being arranged, would have been accepted if we had our choice out there.

Mr. SEIBERLING. You never said to the stockholders who were coming into your organization that they would be relieved from double liability?

Mr. WAKEFIELD. Never. Some groups that have formed have deliberately provided for double liability. If we had it to do over again, we would provide for it.

Mr. SEIBERLING. You have not put into the record a statement of your First Bank Stock Corporation.

Mr. WAKEFIELD. Only just what is there in the statement.

Mr. SEIBERLING. You have not put in a financial statement.

Mr. WAKEFIELD. There is not any.

Mr. SEIBERLING. You certainly must have a financial statement of the holding company.

Mr. WAKEFIELD. It is not active. It does no business.

Mr. SEIBERLING. I have a statement of the issued stock or assets.

Mr. WAKEFIELD. I think I have that right here. I think I have a copy of it here, and if we have it, we shall be glad to put it in.

Mr. SEIBERLING. How much stock have you issued of your holding company?

Mr. WAKEFIELD. It is stated in the record this morning—3,016,000 shares.

Mr. SEIBERLING. At $25 a share, how much would that be?

Mr. WAKEFIELD. $75,000,000, approximately.

Mr. SEIBERLING. With that $75,000,000, you have purchased $54,-000,000 of capital stock, surplus, and undivided profits in these subsidiary banks?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. You were discussing this morning a bank that was in great difficulty in a city of 3,000 inhabitants, and the depositors were there to get their money when you arrived on the scene, but you did not state how much stock you gave those stockholders for their bank.

Mr. WAKEFIELD. We did not give them any. They put up $200,-000 in cash.

Mr. SEIBERLING. And gave you the bank?

Mr. WAKEFIELD. Yes; sure.

Mr. SEIBERLING. How many other banks were given you in this organization?

Mr. WAKEFIELD. Not very many, but there have been several cases where that has happened.

Mr. SEIBERLING. About how many?

Mr. WAKEFIELD. I can not tell you.

Mr. SEIBERLING. Then, this bank that you had given to you, how do you carry that on your books?

Mr. WAKEFIELD. We put in $150,000 in cash. We capitalized a new bank and assumed the deposit liabilities of that bank and after the stockholders had put up $200,000 in cash, we figured it may cost us $50,000 in losses, before we get out.

Mr. SEIBERLING. You made them guarantee the debts ?

Mr. WAKEFIELD. Up to that point—$200,000.

Mr. SEIBERLING. When you take over banks not insolvent, but almost insolvent, you escrow the stock delivered for debts?

Mr. WAKEFIELD. Not unless there is further need for security of the paper in the bank at the time it is taken over.

Mr. SEIBERLING. You want to be sure that all of the assets of the bank are good when you take them over?

Mr. WAKEFIELD. We are not crazy and we would simply not go out and throw the money over the transom in order to get possession of a bank.

Mr. SEIBERLING. You do not pay anything for good will?

Mr. WAKEFIELD. Wherever there is anything coming for good will, it is included.

Mr. SEIBERLING. How do you estimate that?

Mr. WAKEFIELD. Based upon the earnings of the bank, its capital and assets.

Mr. SEIBERLING. Have you ever considered good will in taking over any bank?

Mr. WAKEFIELD. Almost always.

Mr. SEIBERLING. Have you sold any of your stock in the market since you organized the corporation?

Mr. WAKEFIELD. I stated that this morning; it is in the record. We sold 200,000 shares to the public originally at $47.50 a share and 32,000 shares to officers and employees in the various banks in the group at $42.50.

Mr. SEIBERLING. You issued it to the original banks on the basis of $25 a share?

Mr. WAKEFIELD. On an agreed basis, but it was $25 par value stock.

Mr. SEIBERLING. When you agreed on the original value of the bank, you paid them at the rate of the par value for your stock?

Mr. WAKEFIELD. I explained that this morning. The First National Bank of Minneapolis, at the time this corporation was formed—our stock was selling for $220 per share. We received four shares of $25 each par value for 1 share of our stock.

Mr. SEIBERLING. You took the market price?

Mr. WAKEFIELD. No; we took what we considered to be a fair basis of exchange based upon the assets and earnings of the bank regardless of the market value of the stock, because if that stock is worth that price in the market, as First National Bank stock, and it is put in on a fair and equitable basis all the way through, it ought to have an appreciation in value as First Bank stock that would approach it, at least. The fact is it has not.

Mr. SEIBERLING. Would that price, if the stock was sold to the public, be a higher price than the price you took it over at?

Mr. WAKEFIELD. It was a lower price than the price existing at that time on the First National Bank stock.

Mr. SEIBERLING. What time was that?

Mr. WAKEFIELD. It was in late August.

Mr. SEIBERLING. You took your stock at $55 a share?

Mr. WAKEFIELD. That is about it.

Mr. SEIBERLING. And you sold to the public at $43?

Mr. WAKEFIELD. At $47.50.

Mr. SEIBERLING. I believe you stated this morning that there were some sections in the ninth Federal reserve district that had too many banks?

Mr. WAKEFIELD. I do not think there is any question about that.

Mr. SEIBERLING. That is, the communities will not support all the banks they have?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. And some of them have to go out of business?

Mr. WAKEFIELD. I think that is true.

Mr. SEIBERLING. That is not a very good thing for the community?

Mr. WAKEFIELD. It is a very bad thing to have too many banks.

Mr. SEIBERLING. I think you also stated there were many communities that should have banking facilities that do not have them?

Mr. WAKEFIELD. I stated that there were 145 communities where there used to be banks and there are none now.

Mr. SEIBERLING. And you think one of the difficulties in organizing a unit bank in those cases is the fact the Federal farm land banks and the joint-stock land banks loan on mortgages in these communities?

Mr. WAKEFIELD. That is one of the difficulties; yes, sir.

Mr. SEIBERLING. What is the banking business that those communities need that they have not got?

Mr. WAKEFIELD. Just a place where the local people can go and deposit their money, cash checks and do a little banking business.

Mr. SEIBERLING. And borrow money on mortgages?

Mr. WAKEFIELD. It may be that that ought to be done.

I have great faith in the future of farm mortgages. At the present time they are in disrepute, but you can not make me believe that our basic type of security in our territory is forever going to be in disrepute. I think the time is coming when the farm mortgage willl have as good a standing as it had in the past.

Mr. SEIBERLING. We appropriated $500,000,000 to lend farmers on grain or loan associations, with grain securities. We have appropriated $150,000,000 already. Since they have that money available for their associations and they have the other instrumentalities available for farm mortgages—and then we have appropriated another $7,000,000 to lend for individual purposes when needed, by the Secretary of Agriculture—what more could the people need back in those communities?

Mr. WAKEFIELD. I think all that type of appropriation is really ineffective. It is not doing the average farmer any good whatsoever.

Mr. SEIBERLING. Don't you think that the functions of postal savings could be expanded so that in those far-off communities where no one can organize a bank successfully and yet where they need banking facilities these few needs that they have could be taken care of?

Mr. WAKEFIELD. I think it would be an ineffective and cumbersome and an undesirable attempt.

Mr. SEIBERLING. If the law provided that the money that was deposited in the postal savings should be deposited in the banks in the ninth Federal reserve district—money taken in the ninth Federal reserve district should be deposited in the banks of the ninth Federal reserve district—would that make any difference?

Mr. WAKEFIELD. I think the law does permit that and it is largely done, but in all cases it requires the banks to go and buy either State or Government bonds and deposit those in Washington to cover the amount of the deposits they have from postal-savings banks, which means that that fund, if you have a small town where the postal-savings money is in the form of postal-savings deposits, is not available for loans and never can be.

Mr. SEIBERLING. They can be made available for deposits for use in connection with checking?

Mr. WAKEFIELD. I think if you are going to ask the Government to become responsible for the savings of the people through the postal savings of the people, they must be protected in the manner they are.

Mr. SEIBERLING. You say these communities need banking facilities which neither you nor any other organization can afford to furnish. What do you think we should do for them?

Mr. WAKEFIELD. I say if permission were given to banks in the country to put offices in the small towns where the public could come and borrow money and deposit money, it would meet every requirement needed and do it in an intelligent and desirable way.

Mr. SEIBERLING. That could only be done by branch banking?

Mr. WAKEFIELD. That is true.

Mr. SEIBERLING. You think some form of branch banking should be adopted in order to take care of those needs?

Mr. WAKEFIELD. I think some form of branch banking, as far as those towns are concerned, is absolutely essential.

Mr. SEIBERLING. Should branch banking be limited to the towns where there are no banks?

Mr. WAKEFIELD. I do not think it would be possible for Congress or for the State legislatures to set up a regulation of that kind. I think the permission to put branches in the towns would have to be left to the superintendent of banks or the comptroller, in his discretion. I think any other method would run into conflict and difficulty and work a hardship on some community.

Mr. SEIBERLING. You think if the Comptroller of the Currency had charge of it and took supervision over it, it would be proper to permit branch banks to be put in the trade areas in those places where banking facilities are not developed?

Mr. WAKEFIELD. I think the comptroller is entirely competent to exercise that supervision.

Mr. SEIBERLING. You spoke about the deflation period in your statement this morning. As a matter of fact, after 1920, many industries that suffered this same deflation that the farmers did either reorganized or put bond issues on their plants, paid their obligations and went on, but the farmer was unable to do that?

Mr. WAKEFIELD. That is true.

Mr. SEIBERLING. And consequently the banks have had to carry the loans while their securities have depreciated in value over a long period of years?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Now, many found themselves in difficult circumstances, practically insolvent, and you have organized your group plan to go out and take over these banks, some for nothing and others for such terms as you can agree upon, so as to reorganize the banking facilities of your Federal reserve district. Is that correct?

Mr. WAKEFIELD. Not quite.

Mr. SEIBERLING. What is there incorrect about it?

Mr. WAKEFIELD. Well, there is an inference or two in your statement which is incorrect.

In the first place, I will state again that the only interest we have in having banks in our territory is in order that there may be institutions there which have the confidence of the public and with which they are willing to deal, and which are ready and competent and willing to take care of the banking needs of the community served. There is no other motive or purpose in it.

Mr. SEIBERLING. Your venture is very profitable in that these banks have a very valuable good will. Here is a bank that has been in operation for many years. It may be practically insolvent; nevertheless, it has a tremendous good will. You can take their assets over and have them guaranteed by responsible people and have the banking business conducted by competent people.

Mr. WAKEFIELD. But in every case we have figured a percentage value to the owners of the banks for the deposits that were turned over, which we have tried to give them in compensation for any good will that might exist there.

Mr. SEIBERLING. Do you agree with Mr. Decker that if proper banking facilities were furnished out in your community it would do more good than any other kind of relief that could be given to the agricultural districts?

Mr. WAKEFIELD. I agree with him that it furnishes the basis for constructive development and prosperity, and without it you can not have any such thing.

Mr. SEIBERLING. Then, of course, you agree that the banking facilities are very important?

Mr. WAKEFIELD. Absolutely important.

Mr. SEIBERLING. Now, I did not quite understand what you meant this morning when you said that the borrower needed no protection. I assume you have not been a borrower very much in your life?

Mr. WAKEFIELD. Yes, I have. Let me illustrate what I have in mind. There have been rare cases, in my opinion, when there have been developments started which the banks were not ready to assume responsibility for; that, they have been untried. I have in mind one very practical illustration. A few years ago there came into existence a widespread development of installment selling. Every manufacturer and merchant found he could increase his sales and production could be increased through the use of installment buying. It was some years before the banks were willing to assume the responsibility of lending upon that class of security. What happened?

Almost immediately great corporations were formed with substantial capital to undertake to furnish that money that was needed for those purposes, regardless of the banks.

Mr. SEIBERLING. Talking about automobile finance companies and so forth now?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. What rates of interest do they charge?

Mr. WAKEFIELD. It does not make any difference what the rates of interest are.

Mr. SEIBERLING. Is not the borrower interested in that?

Mr. WAKEFIELD. Yes, sir; but the cost of credit is usually gauged by the amount and type of risk involved in the transaction.

Mr. SEIBERLING. If you are going to make a man a loan at all, you are not going to make the loan unless you think the principal is reasonably safe?

Mr. WAKEFIELD. In a bank; yes.

Mr. SEIBERLING. If a man is entitled to a loan at all, is he not entitled to it at a reasonable rate of interest?

Mr. WAKEFIELD. It depends upon what the loan is for and what his situation is.

Mr. SEIBERLING. What do you mean by that? If you are going to make a loan at all, why is he not entitled to a reasonable rate of interest?

Mr. WAKEFIELD. The word "reasonable" is to be associated with or defined with the type of credit you are extending and a rate of interest that is reasonable on one form of credit may be unreasonable on another.

Mr. SEIBERLING. You think a man who is greatly in need of money ought to pay more for it than the man who does not need it so much?

Mr. WAKEFIELD. I want to get set with you.

Mr. SEIBERLING. All right; let us get set.

Mr. WAKEFIELD. The banking business has been developing in the larger communities all the time. Up in our country, on account of that fact and because we have recognized the development of that situation, we understand fully if the smaller bank is to be eliminated and can not prosper the large bank must step in and furnish the facilities to the small man. He must do it not entirely upon a deposit basis, either, but the large bank must be in a position to take care of the small people, and we have done everything we could to take care of them, even to the extent that two years ago, recognizing that responsibility that we have, we formed what we call a personal loan department in our bank, through which we loan to small individuals, without any other connection with the bank, up to $500 on an indorsement basis.

Mr. SEIBERLING. What per cent do you charge on that?

Mr. WAKEFIELD. Six per cent, and we are losing money on it. I regard it, however, as one of the best things we do.

Mr. SEIBERLING. You do not think the borrower is entitled to any protection under the law?

Mr. WAKEFIELD. Certainly I do; but I say I think he is protected under the law in every way I can think of.

Mr. SEIBERLING. What rate of interest do they pay on these mortgages you referred to?

Mr. WAKEFIELD. Our usury laws permit 8 per cent.

Mr. SEIBERLING. But what rate do they pay?

Mr. WAKEFIELD. I do not know.

Mr. SEIBERLING. What rate do you pay when you take them over?

Mr. WAKEFIELD. I do not know. I am not active in the corporation.

Mr. SEIBERLING. Do they buy them at a discount?

Mr. WAKEFIELD. That is a very small company and handles a very small business.

Mr. SEIBERLING. I wanted to get the facts.

Mr. WAKEFIELD. I do not know.

Mr. SEIBERLING. Is there anybody here that does know?

Mr. Wakefield. No; but you can rest assured of this, that they get a charge on that business that pays the cost of operation and a return on the money. I do not know what the rate is.

Mr. Seiberling. Mr. Decker referred to banks yesterday as comparable with public-service corporations. Do you agree with him in that?

Mr. Wakefield. I have never been able to find a basis of comparison myself.

Mr. Seiberling. You would not think it would be proper for the ticket agent of the Baltimore & Ohio down here, if he found a man had to go to New York to-night to charge him $5 or $10 more for his ticket than if he could wait until to-morrow?

Mr. Wakefield. I do not understand that question, Mr. Seiberling.

Mr. Seiberling. Does not the Government do more for the banks than it does for any other business in this country?

Mr. Wakefield. I do not think so. I think the banks do a tremendous amount for the Government every day in the year.

Mr. Seiberling. For the Government?

Mr. Wakefield. Yes, sir.

Mr. Seiberling. Well, the banks operate with the money that belongs to the people, do they not?

Mr. Wakefield. Now, do you want to get into an involved discussion of the theories of banking?

Mr. Seiberling. Do not your deposits come from the people?

Mr. Wakefield. Yes, sir.

Mr. Seiberling. Even the very money you are lending back?

Mr. Wakefield. Yes, sir.

Mr. Seiberling. Are they not entitled to get that money on a reasonable basis?

Mr. Wakefield. I claim they do.

Mr. Seiberling. How much money have you made with this corporation of yours since you organized it?

Mr. Wakefield. Which corporation?

Mr. Seiberling. Your holding company.

Mr. Wakefield. The First Bank Stock Corporation?

Mr. Seiberling. Do you get out monthly statements?

Mr. Wakefield. We get statements every day.

Mr. Seiberling. How much money are you making?

Mr. Wakefield. I do not know, but last year, on the basis of operation of each unit, for the full year, the earnings of this corporation would be approximately $7,300,000 from all sources. That is approximately $2.40 a share on the capital stock.

Mr. Seiberling. That is the bank you took over?

Mr. Wakefield. Yes, sir; the whole group.

Mr. Seiberling. But, as a matter of fact, what have you been making since you took them over?

Mr. Wakefield. Less, because it is a low-money period right at the present time.

Mr. Seiberling. You do not think any money went from the ninth Federal reserve district to New York during the high call-money period?

Mr. Wakefield. I do.

Mr. SEIBERLING. Do you know of any banks that borrowed from the Federal reserve bank and sent it to New York?

Mr. WAKEFIELD. I am quite sure they did not do that in our district.

Mr. SEIBERLING. You do not know of any?

Mr. WAKEFIELD. No, sir.

Mr. SEIBERLING. You think it is all right to have a call-money rate of 25 per cent?

Mr. WAKEFIELD. I think the best sort of regulation and the best indication to the general public of pending difficulties are secured through the fluctuations of the call-money rate in New York.

Mr. SEIBERLING. But you do not answer my question.

Mr. WAKEFIELD. I think it is perfectly proper that the rate should go to 25 per cent if the situation warrants it.

Mr. SEIBERLING. And very much higher?

Mr. WAKEFIELD. So much higher that they would not use it.

Mr. SEIBERLING. You think it should go to an unlimited amount?

Mr. WAKEFIELD. Yes, sir. I think any attempt to fix that rate would be to the detriment of the good of the entire country. I think that is the one mark we have to watch as showing pending danger, and if the public had paid attention to the call-money rate on the New York market in the last two years, they would not have been stung in the stock market like they were.

Mr. SEIBERLING. Do you think there should be any machinery in New York or any other place that could put the money so high that they can make the people pay more interest than the usury laws of the States permit?

Mr. WAKEFIELD. That period was one of the highest call money rate periods that we have had in this country. I know that it had no influence whatever upon the banking resources in our section being diverted to New York in order to get that high rate.

Mr. SEIBERLING. You know it did draw a vast amount of money to New York?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. Then where did it come from?

Mr. WAKEFIELD. From individuals and not from the banks.

Mr. SEIBERLING. But they had to take it out of the banks?

Mr. WAKEFIELD. Probably some did.

Mr. SEIBERLING. And diverted it to New York?

Mr. WAKEFIELD. Yes, sir.

Mr. SEIBERLING. And to the extent that that was done you did not have that money available to lend in your district?

Mr. WAKEFIELD. We took care of every requirement in our district.

Mr. SEIBERLING. Where did you get the money with which to do that?

Mr. WAKEFIELD. From the Federal reserve bank.

Mr. SEIBERLING. And that money you loaned back to your customers, who took it and sent it to New York and loaned at 15 and 25 per cent in New York?

Mr. WAKEFIELD. I think, as a customer of our bank, it is not our business to know what they do with their money.

Mr. SEIBERLING. Do you think the Federal reserve bank should be the instrumentality that permits the New York Stock Exchange to get 25 per cent for its money?

Mr. WAKEFIELD. I do not think your premises are correct.

Mr. SEIBERLING. Did it not work out that way?

Mr. WAKEFIELD. I say I do not think your premises are correct.

Mr. SEIBERLING. You can not control your customers?

Mr. WAKEFIELD. Their money; no.

Mr. SEIBERLING. It is their money?

Mr. WAKEFIELD. Yes.

Mr. SEIBERLING. They pulled it out of your bank and sent it to New York?

Mr. WAKEFIELD. I do not know as they pulled it out, but they did not deposit it.

Mr. SEIBERLING. Some of them pulled it out?

Mr. WAKEFIELD. I really doubt it.

Mr. SEIBERLING. Did not some of your large corporations lend money in New York on call?

Mr. WAKEFIELD. Very few. I think perhaps three or four million dollars was loaned that way in our entire territory.

Mr. SEIBERLING. And you had to go to the Federal Reserve Bank and borrow money to take care of the banking requirements of your community?

Mr. WAKEFIELD. We did at some times.

Mr. SEIBERLING. And you did that because you needed it in the ninth Federal reserve district?

Mr. WAKEFIELD. But do you think because we had to go and borrow money from the Federal reserve bank, that we ought to fix it so that the fellow who gets the money must deposit it in our banks?

Mr. SEIBERLING. The high call money took the money out of your banks and drew it to New York?

Mr. WAKEFIELD. I think it did in some instances.

Mr. SEIBERLING. And, to take care of that money that was drawn to New York, you had to go to the Federal reserve bank to get the money with which to carry on your business?

Mr. WAKEFIELD. I think that is somewhat true, but think of this: We were passing through a period when there was this inflation in New York of stock prices, and one of the real cures for a situation of that kind, is not to fix it arbitrarily so that it can not be carried on for a certain period, but if the public would accept the warning of the rate, then it would take care of itself.

Now, they went blind for a certain period and would not accept any warning.

Mr. SEIBERLING. The result was a tremendous crash in this country that affected the industrial situation and labor productivities.

Mr. WAKEFIELD. I do not think the crash has really resulted in affecting business very much.

Mr. SEIBERLING. That is your opinion, that it has not affected business?

Mr. WAKEFIELD. My opinion is that that is not the main cause of business conditions to-day.

Mr. SEIBERLING. The result is that the Federal reserve bank indirectly furnished a large amount of money for speculation in New York, and they could not help themselves under the system that exists.

Mr. WAKEFIELD. To an extent, I think, that may be so, but the Federal reserve system functioned in a most admirable way all through that period, in my opinion.

Mr. SEIBERLING. Do you think there should be some machinery set up somewhere so as to prevent the rates going so high?

Mr. WAKEFIELD. No, sir; I think the best thing we have in the country to-day is the absolutely free play of the rate on the New York call-money market. I think this: If there had been a limited rate fixed in New York City for call money, above which the price could not go, I think the stock exchange situation would have gone on considerably longer and the crash would have been far greater.

Mr. SEIBERLING. That theory you get from certain classes in New York and other places?

Mr. WAKEFIELD. I do not live in New York.

Mr. SEIBERLING. But suppose we had a limit that would not have drawn the money to New York, and they could not speculate with it, would there have been that great speculation?

Mr. WAKEFIELD. Why, money is going to New York at 3 and 4 per cent to-day faster than before when the high rates obtained.

Mr. SEIBERLING. They have no use for the money in your district that they have left in the banks?

Mr. WAKEFIELD. There is very little demand for money to-day.

Mr. SEIBERLING. You think business is all right?

Mr. WAKEFIELD. Yes, sir; fundamentally.

Mr. SEIBERLING. But there is no use for money in the country?

Mr. WAKEFIELD. If you want to get me onto the business situation——

Mr. SEIBERLING. No; but what do you think caused the business recession?

Mr. WAKEFIELD. The business recession at the present time?

Mr. SEIBERLING. Yes.

Mr. WAKEFIELD. Well, we start out and go through a period in this country every once in a while of very rapid production and accelerated sales and high tension of business and run until we overdo all those things.

This very factor of this new instrument of installment buying that I have been speaking of, was one of the main sources of increasing purchases on the part of the public. The first suit of clothes I bought was a $10 suit on which I paid $2 down and $2 a month. So I am in favor of installment buying.

Mr. SEIBERLING. I have one better than that in connection with the first suit I bought.

Mr. WAKEFIELD. The people were inexperienced with that type of facility. During the few years that have passed they have gained that experience and to-day, instead of having three or four or five contracts running at once, they are not going to be in quite the pinched condition from the exercise of the privilege of installment buying they have been in the past, and so they have shut down buying.

Mr. SEIBERLING. I can not take any more time. I have taken too much already. But you do not believe in usury laws, do you?

Mr. WAKEFIELD. Yes, sir; I do.

Mr. SEIBERLING. But you do not believe they should apply to the New York Stock Exchange?

Mr. WAKEFIELD. I think we need in this country a free market in the country of the type of the New York call money market because it is the finest barometer that exists in this country to-day, if people will watch it.

Mr. SEIBERLING. That is all.

Mrs. PRATT. Mr. Seiberling's questions seem to express objection to the fact that people drew their money out of a bank or took their money and invested it as they chose. That is the individual's right, is it not?

Mr. WAKEFIELD. It is.

Mrs. PRATT. And would not, in your opinion, any legislation to prevent the individual from doing just that very thing, be a type of legislation which this country seems to object to as affecting personal privilege and personal rights?

Mr. WAKEFIELD. I think I have covered that, Mrs. Pratt, in my statement that, in my opinion, there should be never any attempt of that sort.

Mrs. PRATT. Would not that be legislation infringing on personal privilege?

Mr. WAKEFIELD. Absolutely.

Mr. LUCE. I understand that Mr. Wakefield is going to come back in the morning, and so I will adjourn the meeting until to-morrow, but will ask the indulgence of the committee, inasmuch as I have to be at another committee meeting to-morrow morning, to ask one question at this time which I would have asked during my time, if this document had been before me.

I observe from his list that you have two banks in Austin, Blue Earth, Little Falls, and Mankato, Minn.; Aberdeen and Gettysburg, S. Dak.; and Helena, Mont.

Now, there are two of these places—Gettysburg, S. Dak., and Blue Earth, Minn., of which probably I should have been informed, but, in fact, I never heard of before, indicating possibly they are not both of them metropolises. [Laughter.]

Mr. WAKEFIELD. Those banks will be consolidated.

Mr. LUCE. How does it come that you are maintaing two banks in any place?

Mr. WAKEFIELD. We are not, in those cases that you mention there. It will take those two banks put together to make a bank that is justified, and they have already been consolidated.

Mr. LUCE. It is not your intention to maintain two banking offices in those places?

Mr. WAKEFIELD. No, sir.

Mr. SEIBERLING. Before we adjourn, is this financial statement to go into the record?

Mr. WAKEFIELD. Yes.

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

ANNUAL REPORT OF FIRST BANK STOCK CORPORATION, MINNEAPOLIS, ST. PAUL

FEBRUARY 18, 1930.

To the Stockholders of the First Bank Stock Corporation:

Since the last report to stockholders covering the operations of your corporation, the First Bank Stock Corporation's system of banks has been progressively expanded and at the close of the fiscal year, December 31, 1929, it included 85 affiliated institutions all situated within the boundaries of the ninth Federal reserve district. All units of the group are being maintained at a high point of operating efficiency, providing their communities with the most adequate banking and credit facilities, and affording their depositors a maximum degree of security.

The operations of the group are also being reflected in restored confidence throughout the territory and a consequent firmer foundation for stabilized conduct of general business.

We are now concentrating our attention upon the development of the coordinated activities of the group making available to the trade areas and customers of each unit the greater facilities of the system as a whole.

In expanding the First Bank Stock Corporation system we are maintaining the position of affording opportunity to the independent bank upon its own volition to affiliate with the corporation, and new affiliations are being accomplished only upon this basis. The growth of the group is evidence that the independent banker recognizes the benefits to be derived by association with your corporation. Negotiations for the affiliation of a number of additional banks are now pending and will be announced from time to time.

BALANCE SHEET

Of the First Bank Stock Corporation's authorized capitalization of 10,000,000 shares of a par value of $25, there was outstanding upon December 31 a total of 3,016,870.57 shares. The condensed balance sheet of the corporation of that date follows:

Resources:	
Cash on hand	$1,850,092.17
Bonds and commercial paper	3,165,574.79
Bills receivable	2,775,170.10
Accounts receivable	117,115.76
Total quick assets	7,907,952.82
Furniture and fixtures	8,572.92
Stocks	114,949,863.92
Accrued interest (net)	9,506.11
	122,875,895.77
Liabilities:	
Capital	75,421,764.39
Surplus and undivided profits	46,698,616.49
Dividend payable Jan. 1, 1930	755,514.89
	122,875,895.77

NOTE.—The item "stocks" represents the valuation at the time of purchase of our equities in the affiliated corporations. In arriving at the purchase price all factors tending to establish the going-concern value of these corporations were considered and final acquisition was accomplished upon a very conservative basis. In view of the fact that all purchases were made upon valuations established within recent months, no effort has been made to revalue them for purposes of this report. The management feels that the true value of these properties is constantly increasing. A consolidated statement of the banks and companies controlled by the corporation appears on page 4 of this report.

EARNINGS

We have obtained from each bank in the group an earnings statement for the entire year 1929, and where the bank was not in operation for the full year, its income has been carefully estimated. Based on these figures, the annual net operating profit accruing to the corporation, after deducting all expenses and taxes, will amount to $7,282,652.04, or $2.4139 per share of our stock. It is not to be understood that these earnings have actually been received by the corporation; nor will they be received hereafter. It is the policy of your officers to ask dividends from the several banks only sufficient to meet our own dividend requirements, and to allow the excess earnings to remain in the several banks in the form of surplus or reserves, thus continuously strengthening the component parts of the entire organization.

The rate of earnings as at present determined is approximately 2½ times dividend requirements. It may be of interest to note that the earnings of the First National Bank of Minneapolis and First National Bank of St. Paul, independent of their respective subsidiaries and affiliates, are of themselves more than sufficient to meet the entire dividend requirements of the corporation.

FUTURE EARNINGS

The general lowering of interest rates throughout the country will undoubtedly affect banking profits for 1930, but it is hoped that this will be offset by other considerations, of which the principal are as follows:

(*a*) The benefits of group operation, which have scarcely as yet had time to make themselves felt, should be reflected from now on in expanded activities throughout the entire system. We are developing the facilities of our units in the credit, investment, and trust fields, thus increasing their earning capacity, and at the same time are accomplishing economies through the central clearance functions of the corporation.

(*b*) Prior to affiliation with the corporation, the unit banks operated on an excessive reserve basis, due to the financial uneasiness which prevailed throughout the district, and this naturally tended to reduce operating profits. Backed by the combined strength of the organization, it will now be possible for the unit banks to operate on a narrower reserve basis with a resulting increase in profits.

(*c*) That group banking is rapidly increasing public confidence in the member banks is already apparent, and this must inevitably bring about an increase in deposits.

(*d*) Prospects are excellent for substantial profits from our two divisional subsidiaries, First Securities Corporation and First Bancredit Corporation. These companies did not become operative in the group until recently and the earnings report for 1929, therefore, does not reflect their full possibilities. The First Securities Corporation was established with a capital and surplus of $7,500,000 and took over the investment business formerly handled by First Minneapolis Co. and First St. Paul Co. and is extending its service throughout the group. The First Bancredit Corporation is the successor to the Lumberman's Acceptance Corporation of Chicago and conducts a specialized financing business in the construction fields. Its capital structure of January 1 totals $1,101,000.

DIVIDENDS

The board of directors has declared the second quarterly dividend of 25 cents per share payable April 1 to stockholders of record March 15. This is at the annual rate of $1 per share.

TERRITORY SERVED

As of December 31, 1929, 60 cities were served by affiliates of the corporation, as follows:

State	Number of cities	Number of affiliates
Minnesota	21	42
Montana	11	13
North Dakota	15	15
South Dakota	10	12
Michigan	3	3
	60	85

CAPITAL-STOCK DISTRIBUTION

The stockholders of the First Bank Stock Corporation are distributed geographically as follows:

Minneapolis	6,753
St. Paul	2,345
Minnesota (outside of Twin Cities)	3,201
Michigan	383
Montana	987
North Dakota	892
South Dakota	516
Wisconsin	446
Other States	596
Total	16,119

INDEPENDENCE OF UNITS

There has been some uninformed criticism of group banking based upon the claim that the various banks composing the group have sacrificed their independence and that their operations, including their local loans, are directed from the head office of the corporation. This is absolutely untrue. The several banks are corporately just as independent as they were before they became affiliated with the corporation. They are operated and directed by local men for the benefit of the communities which they serve and from which they derive their business. Nothing has changed but the stock ownership and the remedy for inefficiency is just what it was before, namely, removal from office by the stockholders. On the other hand, each unit bank receives the benefit of cooperation with the other units and it is the function of the head office to centralize and improve this cooperation and the advantages which may be derived therefrom.

We look forward to a year of substantial progress and we would remind each stockholder that he can contribute thereto by directing business to our banks whenever he has an opportunity to do so.

Respectfully submitted.

P. J. LEEMAN,
Vice President and General Manager.

Consolidated statement December 31, 1929, first bank stock corporation group

	Invested capital	Deposits	Total resources	Per cent controlled
MINNESOTA				
Minneapolis:				
First National Bank	$11,613,170.30	$97,796,613.27	$122,159,177.19	99.30
First Minneapolis Trust Co	2,400,000.00	23,070,838.90	26,510,493.24	99.30
First Minneapolis Co	3,697,842.47		4,484,010.33	99.30
Minneapolis-Trust Joint Stock Land Bank	667,169.93		5,073,272.16	99.30
Minnehaha National Bank	121,562.17	1,622,346.14	1,848,564.10	99.30
Bloomington Lake National Bank	263,424.16	2,103,852.36	2,570,425.25	99.30
Produce State Bank	136,617.18	1,175,329.84	1,318,672.85	99.30
Hennepin State Bank	123,725.89	568,162.77	693,141.87	100.00
St. Paul:				
First National Bank	11,046,408.05	92,742,783.83	114,567,233.34	97.07
Merchants Trust Co	1,180,802.25	7,405,146.16	9,364,875.63	97.07
First St. Paul Co	5,134,119.53		6,045,885.61	97.07
Grand Avenue State Bank	52,100.58	519,641.67	575,157.47	97.07
Farmers & Merchants State Bank	79,155.93	893,204.16	983,426.82	97.07
First Veterans State Bank	112,709.01	262,200.00	381,161.52	97.07
Security State Bank	97,056.58	802,255.10	911,842.51	69.33
First Bancredit Corporation	601,227.54		2,251,120.30	99.98
Alexandria, Farmers National Bank	126,592.60	985,291.10	1,125,208.11	100.00
Austin:				
Austin National Bank	140,616.51	1,770,728.93	1,968,928.28	100.00
First National Bank	315,388.90	2,462,236.36	2,894,680.49	100.00
Benson, National Bank of Benson	74,428.03	150,266.52	224,694.55	100.00
Blue Earth:				
Farmers National Bank	80,865.72	573,388.25	714,570.19	100.00
First National Bank	44,301.19	462,997.40	518,548.59	98.00

Consolidated statement December 31, 1929, first bank stock corporation group—Continued

	Invested capital	Deposits	Total resources	Per cent controlled
MINNESOTA—continued				
Brainerd, First National Bank	$217, 934. 12	$3, 113, 015. 13	$3, 407, 891. 15	64. 50
East Grand Forks, Minnesota National Bank	65, 000. 00		65, 000. 00	100. 00
Fairmont, First National Bank	139, 298. 24	1, 203, 774. 98	1, 398, 073. 22	100. 00
Graceville, First National Bank	52, 818. 83	814, 784. 88	904, 173. 91	100. 00
Heron Lake, First National Bank	87, 277. 64	824, 288. 19	952, 565. 83	100. 00
Litchfield, State Bank of Litchfield	152, 069. 15	1, 312, 412. 65	1, 483, 958. 54	100. 00
Little Falls:				
American National Bank	151, 003. 52	1, 506, 012. 36	1, 771, 225. 36	51. 00
Peoples State Bank	38, 124. 61	391, 087. 76	429, 913. 67	100. 00
Mankato:				
First National Bank	321, 595. 64	3, 680, 254. 11	4, 152, 204. 82	100. 00
Mankato Loan & Trust Co	120, 183. 24	29, 350. 23	151, 421. 32	100. 00
Northfield, Northfield National Bank & Trust Co	167, 062. 51	1, 038, 574. 26	1, 314, 896. 69	100. 00
Owatonna, First National Bank	136, 743. 21	1, 822, 635. 08	2, 059, 378. 29	100. 00
Pipestone, Pipestone National Bank	110, 119. 47	1, 071, 481. 97	1, 196, 743. 01	100. 00
Red Wing, Security National Bank & Trust Co	166, 121. 01	1, 383, 294. 71	1, 556, 626. 46	100. 00
Rochester, First National Bank	383, 951. 54	3, 712, 470. 88	4, 316, 266. 15	100. 00
Sauk Centre, Merchants National Bank	69, 741. 92	1, 153, 048. 02	1, 298, 420. 07	100. 00
Spring Valley, First National Bank	107, 441. 70	1, 208, 156. 61	1, 365, 598. 31	99. 20
Willmar, Security National Bank	127, 706. 62	95, 376. 56	223, 083. 18	100. 00
MONTANA				
Billings, Midland National Bank	325, 000. 00	4, 223, 760. 78	4, 748, 760. 78	100
Bozeman, Commercial National Beek	504, 307. 79	2, 742, 696. 50	3, 310, 704. 14	86. 67
Butte, Metals Bank & Trust Co	1, 328, 185. 55	21, 193, 524. 53	22, 776, 710. 08	100
Great Falls, First National Bank	789, 936. 87	12, 360, 038. 83	13, 304, 975. 70	100
Havre, Montana National Bank	81, 714. 90	1, 074, 527. 51	1, 156, 242. 41	100
Helena:				
American National Bank	511, 241. 66	4, 598, 307. 33	5, 209, 548. 99	99. 67
National Bank of Montana	425, 924. 88	3, 629, 737. 33	4, 158, 981. 65	99. 10
Montana Trust & Savings Bank	264, 824. 81	2, 664, 621. 61	2, 954, 446. 42	100
Lewistown, National Bank of Lewistown	200, 229. 19	1, 331, 251. 32	1, 531, 480. 51	100
Livingston, National Park Bank	244, 571. 48	3, 097, 919. 92	3, 372, 979. 87	100
Miles City, First National Bank	300, 858. 95	2, 827, 842. 49	3, 158, 701. 44	98. 66
Missoula, Western Montana National Bank	407, 037. 22	4, 435, 804. 06	4, 944, 461. 86	100
Shelby, First State Bank	42, 908. 24	619, 607. 71	662, 515. 95	100
NORTH DAKOTA				
Bismarck, First National Bank	337, 400. 91	3, 988, 635. 34	4, 526, 676. 96	99. 4
Cando, First National Bank	76, 028. 04	712, 472. 67	807, 690. 49	95
Cavalier, Merchants National Bank	66, 385. 30	677, 299. 38	748, 684. 68	100
Cooperstown, First National Bank	66, 015. 48	292, 267. 96	412, 996. 15	90
Fargo, Merchants National Bank & Trust Co	334, 732. 77	2, 552, 937. 39	3, 006, 134. 08	61. 4
Glen Ullin, First National Bank	40, 369. 30	535, 114. 23	583, 254. 17	100
Grand Forks, Red River National Bank & Trust Co	268, 122. 80	860, 512. 76	1, 136, 758. 88	99. 37
Harvey, First National Bank	102, 174. 55	803, 360. 42	930, 534. 97	100
Hebron, First National Bank	66, 749. 95	662, 885. 29	762, 418. 05	77
Jamestown, National Bank & Trust Co	139, 083. 10	1, 456, 042. 79	1, 604, 181. 18	100
Lidgerwood, First National Bank	39, 812. 53	429, 888. 50	495, 113. 13	100
New England, First National Bank	58, 595. 03	357, 880. 46	435, 635. 49	100
New Rockford, First National Bank	117, 326. 72	665, 822. 78	814, 541. 94	50. 4
Rolla, First National Bank	54, 464. 66	389, 301. 98	471, 909. 31	100
Valley City, National Bank of Valley City	138, 350. 71	1, 162, 518. 30	1, 361, 068. 53	89
SOUTH DAKOTA				
Aberdeen, Aberdeen National Bank & Trust Co	209, 863. 46	3, 380, 282. 33	3, 635, 844. 50	98
Aberdeen, First Street Savings Bank	103, 247. 61	834, 623. 83	944, 780. 11	100
Clark, Clark County National Bank	61, 509. 01	433, 697. 33	525, 690. 02	100
Gettysburg, First National Bank	48, 281. 14	436, 399. 21	515, 509. 10	100
Gettysburg, Potter County Bank	50, 258. 27	617, 157. 22	681, 869. 82	100
Highmore, First National Bank	114, 672. 26	847, 936. 40	1, 017, 603. 66	100
Lemmon, First National Bank	77, 472. 90	532, 183. 70	641, 888. 65	100
Miller, First National Bank	173, 632. 30	1, 126, 243. 51	1, 299, 875. 81	100
Ree Heights, First National Bank	49, 656. 08	300, 665. 27	350, 321. 35	100
St. Lawrence, First National Bank	57, 073. 65	288, 532. 79	372, 306. 44	100
Vermilion, First National Bank & Trust Co	165, 687. 09	1, 959, 275. 07	2, 151, 140. 45	100

Consolidated statement December 31, 1929, first bank stock corporation group—Continued

	Invested capital	Deposits	Total resources	Per cent controlled
MICHIGAN				
Calumet, First National Bank	$509,893.32	$3,873,524.14	$4,628,417.46	97.8
Hancock, First National Bank	243,176.71	3,122,788.47	3,456,705.18	99
Laurium, First National Bank	185,465.45	1,767,082.66	2,072,632.96	98.2
Total	50,105,720.13	359,594,273.24	446,915,233.70	
SUBSEQUENT ACQUISITIONS				
Albert Lea, Minn.:				
Freeborn County National Bank & Trust Co	130,000.00	421,246.10	556,077.15	100.00
North Side State Bank	55,897.48	699,670.62	777,001.88	72.00
Forsyth, Mont., American National Bank	36,781.89	426,898.96	463,689.24	88.00
Windom, Minn., First National Bank	120,119.10	1,255,644.80	1,462,423.75	96.90
Total	50,448,518.60	362,397,733.72	450,174,425.72	

OTHER ASSETS OF FIRST BANK STOCK CORPORATION AS OF DECEMBER 31, 1929

Cash on hand	$1,850,092.17
Bonds and commercial paper	3,165,574.79
Other investments	90,501.35
Bills receivable	2,775,170.10
Accounts receivable	117,115.76
Furniture and fixtures	8,572.92
Net interest earned not collected	9,506.11
Total	8,016,533.20

First Bank Stock Corporation

OFFICERS

C. T. Jaffrey, chairman of the board of directors; George H. Prince, president; Lyman E. Wakefield, vice president; Lyle W. Scholes, vice president; R. C. Lilly, vice president; A. McC. Washburn, vice president and general counsel; P. J. Leeman, vice president and general manager; E. C. Kibbee, vice president; A. E. Wilson, secretary and comptroller; M. M. Hayden, treasurer; M. A. Cooley, assistant secretary and assistant treasurer.

DIRECTORS

Shreve M. Archer, president, Archer-Daniels Midland Co., Minneapolis.

Julian B. Baird, president, First Securities Corporation, St. Paul.

J. C. Bassett, chairman of the board, Aberdeen National Bank & Trust Co., and president, First State Savings Bank, Aberdeen, S. Dak.

Russell M. Bennett, mineral lands, Minneapolis.

F. R. Bigelow, president, St. Paul Fire & Marine Insurance Co., St. Paul.

John W. Black, president, John W. Black Co., Minneapolis.

Ralph Budd, president, Great Northern Railway Co., St. Paul.

E. L. Carpenter, president, Shevlin, Carpenter & Clarke Co., Minneapolis.

F. A. Chamberlain, chairman executive committee, First National Bank in Minneapolis.

Hovey C. Clarke, Shevlin, Carpenter & Clarke Co., Minneapolis.

Franklin M. Crosby, vice president, General Mills (Inc.), Minneapolis.

N. Paul Delander, vice president, First Securities Corporation, St. Paul.

S. W. Dittenhofer, president, Dittenhofer Realty Co., St. Paul.

Charles Donnelly, president, Northern Pacific Railway Co., St. Paul.

L. O. Evans, general counsel Anaconda Copper Mining Co.

E. T. Foley, president, Foley Bros., St. Paul.

Harry P. Gallagher, president, Northwestern Consolidated Milling Co., Minneapolis.

Charles W. Gordon, president Gordon & Ferguson (Inc.), St. Paul.
Theodore W. Griggs, president Griggs, Cooper & Co., St. Paul.
William Hamm, jr., vice president, Theo. Hamm Brewing Co., St. Paul.
Isaac E. Hansen, vice president The First National Bank of St. Paul.
Harry J. Harwick, secretary-treasurer, Mayo Clinic, Rochester, Minn.
John H. Hauschild, president Charles W. Sexton & Co., Minneapolis.
Horace M. Hill, president Janney, Semple & Co., Minneapolis.
L. W. Hill, chairman of the board, The First National Bank of St. Paul.
Louis K. Hull, president Western Pacific Land & Timber Co., Minneapolis.
Charles G. Ireys, vice president-treasurer, Russell-Miller Milling Co., Minneapolis.
Horace H. Irvine, pine lands and lumber, St. Paul.
C. T. Jaffray, president Minneapolis, St. Paul & Sault Ste. Marie Railway Co., Minneapolis.
John Junell, Junell, Oakley, Driscoll & Fletcher, attorneys, Minneapolis.
Charles O. Kalman, Kalman & Co., St. Paul.
J. J. Kalman, president Kalman Steel Co., St. Paul.
Cornelius F. Kelley, president Anaconda Copper Mining Co.
William P. Kenney, vice president, Great Northern Railway Co., St. Paul.
Horace C. Klein, managing partner Webb Publishing Co. St. Paul.
P. L. Leeman, vice president, First National Bank in Minneapolis and vice president and general manager, First Bank Stock Corporation.
R. C. Lilly, president the First National Bank of St. Paul.
C. B. Little, president First National Bank, Bismarck, N. Dak.
A. C. Loring, president Pillsbury Flour Mills Co., Minneapolis.
James Mac Naughton, president Calumet & Hecla Consolidated Copper Co., Calumet, Mich.
Sumner T. McKnight, president S. T. McKnight Co., Minneapolis.
T. A. Marlow, president National Bank of Montana, Helena, Mont.
B. V. Moore, vice president, First Minneapolis Trust Co., Minneapolis.
J. A. Oace, vice president, the First National Bank of St. Paul.
E. B. Ober, president Motor Power Equipment Co., St. Paul.
A. F. Pillsbury, vice president, Pillsbury Flour Mills Co., Minneapolis.
C. S. Pillsbury, vice president, Pillsbury Flour Mills Co., Minneapolis.
J. S. Pomeroy, vice president First National Bank in Minneapolis.
F. M. Prince, chairman of the board, First National Bank in Minneapolis.
George H. Prince, chairman the First National Bank of St. Paul, and president First Bank Stock Corporation.
George W. Robinson, president Tri-State Telephone & Telegraph Co., St. Paul.
John D. Ryan, chairman of the board, Anaconda Copper Mining Co.
Fred W. Sargent, president Chicago & North Western Railway Co.
H. A. Scandrett, president Chicago, Milwaukee, St. Paul & Pacific Railroad Co.
Sam Stephenson, president First National Bank, Great Falls, Mont.
Martin L. Thompson, chairman of the board, First National Bank & Trust Co., Vermilion, S. Dak.
L. E. Wakefield, president First National Bank in Minneapolis.
E. C. Warner, president E. C. Warner Co., Minneapolis.
A. McC. Washburn, vice president and general counsel, First Bank Stock Corporation, Minneapolis.
Robert W. Webb, president First Minneapolis Trust Co. and chairman of the board, First Securities Corporation.
F. B. Wells, vice president, F. H. Peavey & Co., Minneapolis.
Stuart W. Wells, president Wells-Dickey Co., Minneapolis.
F. E. Weyerhaeuser, lumber, St. Paul.
R. M. Weyerhaeuser, lumber, St. Paul.
W. D. Willard, vice president and manager, First National Bank, Mankato, Minn.
Frederick E. Williamson, president Chicago, Burlington & Quincy Railroad Co.
D. N. Winton, president the Pas Lumber Co., Minneapolis.
James E. Woodard, president Metals Bank & Trust Co., Butte, Mont.

Mr. WINGO. I should like to have it understood that I will be allowed a few minutes to-morrow afternoon to question the witness.

(Discussion off the record.)

Mr. LUCE. The committee will stand adjourned until 2 o'clock to-morrow afternoon.

(Whereupon at 4 o'clock p. m. the committee adjourned to meet at 2 o'clock p. m. on Thursday, April 17, 1930.)

BRANCH. CHAIN, AND GROUP BANKING

THURSDAY, APRIL 17, 1930

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

The committee met in the committee room, Capitol, at 2.15 o'clock p. m., Hon. E. Hart Fenn presiding.

Mr. Fenn. The committee will come to order.

STATEMENT OF L. E. WAKEFIELD—Resumed

Mr. Fenn. Mrs. Pratt, when we closed last evening you were cut short; you had not finished your inquiry.

Mrs. Pratt. I shall take only two or three minutes.

Mr. Fenn. You have that opportunity now, and Mr. Dunbar follows and then Mr. Wingo.

Mrs. Pratt. Mr. Wakefield, I do not profess to be a banker, and for that reason I have no preconceived notions for or against the subject under discussion here; but I do wish to state that I have been very greatly impressed by the way in which you and Mr. Decker have handled the banking situation in your part of the country, and unquestionably you seem to have solved many of the problems there which we have under contemplation here for possible legislation; but the fact is that such men as you and Mr. Decker might not always be in control. What I wanted to ask was whether you felt that these holding companies—for instance, such a holding company as yours—should be subjected to the same rigid inspection as the banks?

Mr. Wakefield. We feel very strongly on that point that the comptroller's office should have the right to come in and examine our holding company or any of the institutions in the holding company.

Mrs. Pratt. You feel that that would really be a safeguard?

Mr. Wakefield. I do. I think there should certainly be some regulation and some restrictions put upon that type of business. We want that for our own benefit.

Mrs. Pratt. I do not know whether this is a proper question, and, if it is not, do not answer it; but do you feel that such holding companies should invest their funds in speculative stocks?

Mr. Wakefield. No; I do not. My own view on this is contrary to some others; my own view is that no banking institution as such should invest in common stocks of any nature.

Mrs. Pratt. Just one more question. I think you stated that you were not as yet able to handle the banking situation in the smaller towns; at least, that you had not attempted to do so, and that you felt that would be more appropriately covered by branches of State banks—I think you used the word "State."

Mr. WAKEFIELD. If I did, it was inadvertent, because I did not intend to say branches of State banks.

Mrs. PRATT. At the time I noted it down, because I wondered if you were opposed to any form of national-bank branch banking.

Mr. WAKEFIELD. Not at all. I believe that that privilege should be granted to national banks.

Mrs. PRATT. Do you feel that a national branch-banking system extending over a fairly wide area tends to establish in this country too much of a paternalistic system?

Mr. WAKEFIELD. No; I do not. Our position on the method of solving the difficulties that exist is in harmony, to a certain extent, with the suggestion made by the Comptroller of the Currency and the Governor of the Federal Reserve Board, except that we approach that topic from a reverse angle. Our belief is that if we are to have branch banking, it should be permitted originally from the outside in and not thrust upon the people from the center out into the country.

In other words, taking this town of Austin that I spoke of, the first national bank there might properly be authorized to do a branch-banking business within its territory, its vicinity, in the smaller communities, and eventually that might develop into a situation where it would be perfectly feasible and acceptable to the public that it become a branch of some system within a certain trade area.

Mrs. PRATT. Do you think that such a national bank, with branches established in the smaller communities, might become part of the group system, so that eventually your group system would absorb the whole?

Mr. WAKEFIELD. Eventually the group system might be converted into a branch system, if that became the thing that it was decided ought to be done.

Mrs. PRATT. I think that is all.

Mr. FENN. Thank you, Mrs. Pratt.

Mr. Goldsborough, you are next on the list, if you wish to interrogate Mr. Wakefield.

Mr. GOLDSBOROUGH. Mr. Wakefield, I have here Barron's for April 14, and it has a leading article by Ernest T. Clough, which is headed "Group Banking Sweeps the Country."

As I understand it, your organization and that of which Mr. Decker is president have been in existence each for less than a year?

Mr. WAKEFIELD. The Northwest Bancorporation has been in existence about 13 months and our present set-up about 9 months.

Mr. GOLDSBOROUGH. This article, in table No. 4, gives the Northwest Bancorporation as having 98 banks in its group and the First Bank Stock Corporation as having 100 banks in its group.

Has your group 100 banks?

Mr. WAKEFIELD. No; about 91.

Mr. GOLDSBOROUGH. Have you ever had as many as 100?

Mr. WAKEFIELD. It may be that they would get that figure from the fact that possibly in the total operation there may have been 100 banks involved, remembering that in some cases there have been two or three banks put together to make one at the time of the acquisition, or a couple of them consolidated.

Mr. GOLDSBOROUGH. Mr. Decker's statement was, as I remember it, that the first thing which was done, some four banks he named agreed on this set-up, but after a little while the movement became accelerated and, instead of having to suggest to the banks they come in—instead of the suggestion going from the holding company to the bank, very often it would come from the bank to the holding company, and, as I understand, that was also your experience?

Mr. WAKEFIELD. It was very much so in both cases.

Mr. GOLDSBOROUGH. The territory within which you and the Northwest Bancorporation are operating is a territory through which the banking experiences of the last 10 years have been tragic?

Mr. WAKEFIELD. That is true, I think.

Mr. GOLDSBOROUGH. I think Mr. Decker, in speaking of Cavalier County, in one of the Dakotas, stated there were some 26 banks when this difficulty started, and there are only 5 or 6 now in existence afterwards?

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH. That the rest had been forced to close. I think he also stated in this Cavalier County the original capital—that is, the deposits of these banks before their failure took place—was around $5,000,000 for the 26 banks. Prior to the deflation period—that is, prior to 1921—were the banks, on an average, throughout the territory in which you operate as small as that would indicate?

Mr. WAKEFIELD. Yes; in the State of North Dakota, where Cavalier County is, they had one bank in 1920 for every 752 population.

Mr. GOLDSBOROUGH. That is a very interesting observation. As far as you know, had this banking situation in North Dakota prior to 1920 been of a sudden or a gradual growth?

Mr. WAKEFIELD. It had been rather gradual, over quite a period of years.

Mr. GOLDSBOROUGH. It is obvious, do you not think, that one bank, with its building and general overhead, for less than 1,000 population, is too much under any banking system?

Mr. WAKEFIELD. Yes; and in some cases even 1,000 population I do not think would supply anywhere near——

Mr. GOLDSBOROUGH. I fully agree with you on that.

Is it not more nearly true that one bank for every 2,500 or 3,000 is entirely adequate?

Mr. WAKEFIELD. I think you are correct. I have never made a careful study myself to determine a population basis for banks.

Mr. GOLDSBOROUGH. The business, of course, in the territory covered by the population would have a great deal to do with it.

Mr. WAKEFIELD. There certainly is a point there beyond which it is undesirable to go; it is simply destructive when you begin to have competition.

Mr. GOLDSBOROUGH. Now, the natural result of the very distressing condition which the Northwest Territory went through was, of course, that the people were more amenable than they ordinarily would be to suggestions as to changes in the banking situation?

Mr. WAKEFIELD. I think that is true, based on this fact, that they were ready to welcome any arrangement that they felt would be sound and safe and do the thing that they wanted to have done.

Mr. GOLDSBOROUGH. Now, do you believe the people who allowed such a number of banks to grow up in North Dakota prior to 1920 would, in so far as banking is concerned, have a very clear conception of what is sound banking? Do you not think a people of that kind would welcome almost anything which appeared to give relief?

Mr. WAKEFIELD. I think that they have given that topic much greater thought and that they probably have a better understanding to-day than they did when the times did not call for their thought on it.

Mr. GOLDSBOROUGH. Do you not think that in any line of endeavor, when a movement begins to gain momentum there is a tendency to try to get on the band wagon, as it were, whether it be in banking or in any other activity? Where there seems to be a movement on foot, do you not think there is a tendency, irrespective of every other consideration, to become panicky and desirous of getting on the band wagon? I do not know of any other way to express it which conveys my meaning more clearly.

Mr. WAKEFIELD. I do not think that is always true. I think there may be a tendency of that kind, but I think it is accompanied in business by rather clear consideration and judgment in connection with what is best to do.

Mr. GOLDSBOROUGH. I notice in this article the statement is made that——

> If the unit bank did not ally itself with the powerful city institution, would it find itself playing a lone hand against great odds, with the neighboring unit bank gleefully advertising its strength as a member of the XYZ corporation, with total resources of so many hundreds of millions of dollars?

Do you think there is any vitality in that observation?

Mr. WAKEFIELD. I think in the territory that I am familiar with that the matter has been handled in such manner that the sound unit bank has not been unfairly prejudiced in the public mind.

Mr. GOLDSBOROUGH. Mr. Wakefield, you do not have it in mind, do you, that either at this time or ultimately your organization will not do what other organizations have done since the beginning of time, endeavor to get the advantage of its competitor?

Mr. WAKEFIELD. Why, I have in mind that in the operation of our institution we are going to serve the public to the fullest possible extent, with the very idea of making that service of such value and attractiveness that we will get all the business that can come to us.

Mr. GOLDSBOROUGH. But you think that would continue to be the condition if competition were eliminated?

Mr. WAKEFIELD. I never expect to see it eliminated.

Mr. GOLDSBOROUGH. You say you never expect to see it eliminated, which would seem to me to be an unusual observation, an unusual point of view, but it seems to parallel an observation you made, I think, yesterday, that you did not understand what was meant by favoritism to one possible borrower over another, that you did not have any conception of what that meant.

I think that fairly states what you said, and if it does not you can correct it.

Mr. WAKEFIELD. That is correct; and in my experience in business I have never known of a thing of that kind to exist, nor do I know to-day of any area in the banking business in this country that has not very strong, substantial competition.

Mr. GOLDSBOROUGH. Do I understand you to say you have never known of an instance where a borrower has been favored over another, where everything else was equal?

Mr. WAKEFIELD. Do you mean in the ordinary business transaction?

Mr. GOLDSBOROUGH. Yes.

Mr. WAKEFIELD. What do you mean by "borrower"?

Mr. GOLDSBOROUGH. I mean a borrower from the bank.

Mr. WAKEFIELD. You mean, supposing there were two grain men doing business with us, both equally good, would there be any chance of favoring one over the other?

Mr. GOLDSBOROUGH. Any business.

Mr. WAKEFIELD. In any business doing business with the bank, equally good? I have never known of a case.

Mr. GOLDSBOROUGH. You have never known of a case?

Mr. WAKEFIELD. Never; and I do not think it would be possible to happen. It might happen in some bank——

Mr. GOLDSBOROUGH. All I have to say is that your experience is different from that of everybody else I have ever heard of.

Mr. WAKEFIELD. I am running a bank, and that is the way I run mine.

Mr. GOLDSBOROUGH. I am not running one, but I am a director in three, and I have had some experience. I remember—and I am going to base a question on this observation—that in my county there was at one time only one bank, and I remember very distinctly if anybody wanted to start in a business which was in competition with those who were in control of that bank, they could not borrow any money from it. That condition has been cured by competition, and that is the only way it was cured.

I remember in an adjoining county, Talbot, there used to be only one bank and that exact condition existed, which ultimately brought another institution into the county; but when you say you never knew of an instance of that, you surprise me very much.

Mr. WAKEFIELD. My own judgment is that the very instance you have recited is evidence that their shortsighted policy in running that original bank without competition brought about the cure for it, because it did bring competition.

Mr. GOLDSBOROUGH. I know, but the very interesting thing to me is your statement that you never knew of anything of that kind going on in a banking institution.

Mr. WAKEFIELD. I never did.

Mr. GOLDSBOROUGH. It is done every day, my dear sir, in every bank in the United States except yours.

Mr. WAKEFIELD. If any banks are doing that kind of business, I do not know of them, and I do not believe they could keep the business very long if they did.

Mr. GOLDSBOROUGH. You can not keep the selfish instincts of the boards of directors down.

Mr. WAKEFIELD. No, sir; but the most selfish instinct of a board of directors is the building up of the business of the institution in which they have made their investment.

Mr. GOLDSBOROUGH. Not necessarily, because in this country bankers are not bankers; they are business men who are drafted to become directors of banks because of their influence in the neighborhood.

Mr. Wakefield. You had better send them up to Minneapolis and we will educate some of them.

Mr. Goldsborough. That is the universal situation in this country. It may not be in Minneapolis, but I have no doubt that the Minneapolis boards of directors of banks are made up of prominent business men, just as they are elsewhere.

Mr. Wakefield. They are, but I have never known of a case where one of those business men has ever interfered or ever requested that there be interference with the taking care of competitors in the same line of business as theirs, where the request of the competitor was justified. If they did, we would not have them for directors.

Mr. Goldsborough. That is a very ideal condition which I am sure exists nowhere else on earth, because it is contrary to human instincts.

Mr. Wakefield. I can not agree with you on that.

Mr. Goldsborough. It is like King Canute, trying to sweep back the ocean.

Of course, if your theory were correct, is it not true we would not have to have any banking restrictions at all; we could simply say, " You are all-wise and you are absolutely honest; now, go to it and benefit the public "?

You would not have to have any restrictions at all; that is where your theory would lead to.

Mr. Wakefield. I do not think it would go quite that far.

Mr. Goldsborough. I see. In your organization, do you borrow on the stock that you own in the constituent banks?

Mr. Wakefield. Who? Individually?

Mr. Goldsborough. No; this corporation. The First Bank Stock Corporation owns the stock of these constituent banks.

Mr. Wakefield. Yes; but it never has borrowed a cent, and I do not expect it ever will.

Mr. Goldsborough. But it has the right to borrow, like any other owner of property would have such a right.

Mr. Wakefield. Yes; it could borrow.

Mr. Goldsborough. It could take that stock and borrow on it and then it could take the proceeds and buy common stocks on margin, and it would not be doing anything illegal; you would not be violating the law if you did that.

Mr. Wakefield. Yes; and somebody would be unwise if they did it.

Mr. Goldsborough. No, no; you misconceive the purpose of my question entirely.

Mr. Wakefield. You are asking a hypothetical question.

Mr. Goldsborough. No; I am not asking a hypothetical question at all. We are not interested as a legislative committee in whether you are honest or dishonest, or in whether you are wise or unwise. Those are matters with which the authorities whom you deal with and the public with which you deal are concerned, but as a legislative committee we are not interested in that. What we are interested in is whether or not the proposition is economically sound.

Mr. Wakefield. Yes, sir.

Mr. Goldsborough. And that is the only thing we are interested in.

What I am asking you is whether or not, under your setup, you could not borrow on the stock that you own and take the proceeds of that borrowing and buy common stocks on margin.

Mr. WAKEFIELD. Certainly.

Mr. GOLDSBOROUGH. And you could do it legally, could you not?

Mr. WAKEFIELD. Certainly.

Mr. GOLDSBOROUGH. Without violating the law?

Mr. WAKEFIELD. Certainly.

Mr. GOLDSBOROUGH. Do you think you ought to have that right?

Mr. WAKEFIELD. I would think it would be a great mistake if there were ever any attempt to say by legislation how the owner of an individual piece of property might use it or what he might do with it.

Mr. GOLDSBOROUGH. Even though he is the absolute owner——

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH (continuing). Of all of the stock in a banking institution?

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH. Do you want to correct that statement? It is perfectly all right to do it.

Mr. WAKEFIELD. I do not want to correct it.

Mr. GOLDSBOROUGH. That is rather an astonishing statement.

How do you distinguish, as a practical proposition, between one of your constituent banks and a branch bank?

Mr. WAKEFIELD. They are entirely different.

Mr. GOLDSBOROUGH. Of course, you have absolute control of the institutions, and the mother bank has absolute control of the branch banks. What are the differences?

Mr. WAKEFIELD. The First Bank Stock Corporation owns the stock of the First National Bank at Austin, and the First National Bank at Austin is a separate corporate institution, capitalized and officered there in Austin, and its board of directors and its management are there in Austin, with absolute control. The only supervision we have over that bank is exactly the same as the individual stockholders have had in the past and do always have as owners of the stock.

Mr. GOLDSBOROUGH. But you own all the stock.

Mr. WAKEFIELD. Yes, sir; and so was all of the stock owned before.

Mr. GOLDSBOROUGH. But you do not get all of the stockholders to act cohesively.

Mr. WAKEFIELD. And that is the reason this is much more effective that we have a live, active stockholder that is watching that bank.

Mr. GOLDSBOROUGH. Do you not control that bank just as absolutely as the home bank controls any of its branches in a branch banking system?

Mr. WAKEFIELD. No. If we had a branch bank down there under the branch-banking system, we would have no capital investment in that town.

Mr. GOLDSBOROUGH. Why is that true of necessity?

Mr. WAKEFIELD. Because, we will say, that the First National Bank of Minneapolis was authorized to have branches, and it would be capitalized the required amount as a single bank; it would have an office or a branch in Austin managed by a manager.

Mr. GOLDSBOROUGH. Why does that have to be the system?

Mr. WAKEFIELD. I have never heard of any other system of branch banking.

Mr. GOLDSBOROUGH. We have been told by Governor Young and by Mr. Pole that the branch banks do not have to lose their individuality at all.

Mr. WAKEFIELD. I read Governor Young's testimony and Mr. Pole's testimony and I do not remember reading that statement.

Mr. GOLDSBOROUGH. You say that, as far as you know, there is no branch-banking system which provides for local boards of directors and local capital to control the branches?

Mr. WAKEFIELD. No.

Mr. GOLDSBOROUGH. It may be very interesting to you to know that there is a branch-banking system in Maryland with 21 branches, which has no parent bank and no branch bank; each bank stands on exactly the same level, but they each support the other. In other words, there is a general capital set-up involving all the banks, and when a new bank is started the community is canvassed for the purpose of getting the stock which is to go into that institution and that institution is put on its feet with that stock and the board of directors is elected locally.

Mr. WAKEFIELD. Is that local bank, then, a separate corporation?

Mr. GOLDSBOROUGH. No, indeed.

Mr. WAKEFIELD. I do not understand that a set-up of that kind, as I have been familiar with branch banking in my experience, is typical branch banking.

Mr. GOLDSBOROUGH. I do not know that it is typical branch banking, but it is perfectly conceivable to have a branch banking system where you have your local directors, if you want it that way. You do not have to have just a local manager.

Mr. WAKEFIELD. You can do most everything. The question is whether it is the right thing to do.

Mr. GOLDSBOROUGH. Then I will ask you this: I will ask you whether you do not think that in a branch banking system the constituent banks should be autonomous?

Mr. WAKEFIELD. I think that in a branch banking system the capital structure should have a relationship to the deposit liability and should be based upon that and that only.

Mr. GOLDSBOROUGH. You can not conceive, as a business man, of a branch banking system where the capital is so divided up that each institution has the responsibility of earning dividends on a certain proportion of that capital which is locally owned and where the board of directors is exclusively local and where no outside board of directors has anything to do with it at all?

Mr. WAKEFIELD. I do not think that that is branch banking.

Mr. GOLDSBOROUGH. What would you call it?

Mr. WAKEFIELD. That is group banking.

Mr. GOLDSBOROUGH. No; that is not group banking; that is, it is not the kind of group banking we have been hearing about for the last three days.

Now, Mr. Wakefield——

Mr. FORT. Before you leave that subject may I give you an illustration of that same idea that has now taken place in New Jersey?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. FORT. In the setting up of branches in my home city of Newark since the passage of the McFadden bill, they have largely taken over old banks and converted them into branches, but have retained the old boards of directors as advisory boards of directors in those branches, and in every case I understand that the local advisory board of directors passes on the loans that are made to the customers of that branch, subject, however, to supervision from the main office. That is somewhat similar. They have been taking stock in the parent bank in exchange for their own holdings of stock in the bank that sold out.

Mr. WINGO. Do you mean from among the local stockholders?

Mr. FORT. They were all in the city of Newark under the McFadden bill, but 1 bank in Newark has absorbed 7 or 8 other Newark banks and made them branches of the major bank, and they retained the old boards of directors as advisory boards in charge of the affairs or the business done at the branch, which has supplanted the old local neighborhood bank.

Mr. WINGO. But his illustration was, if I got the set-up——

Mr. FENN. Does Mr. Goldsborough yield?

Mr. GOLDSBOROUGH. Yes.

Mr. WINGO (continuing). That the parent bank was in Baltimore and had branches scattered over Maryland towns, whereas the set-up you have in mind would be that the local stockholders of the Baltimore bank, living in this village here, would among them select an advisory board and run that branch?

Mr. FORT. It might be that way, yes; it is possible, but they would have to be supervised, of course, from the central office.

Mr. WINGO. Purely advisory?

Mr. FORT. Yes.

Mr. WAKEFIELD. I think that has been done in many cases—in most cases, where a bank has absorbed other banks and made them branches, but the fact remains that after that absorption, the capital structure is in the one bank, and that the board of directors and the officers of the one bank are absolutely running that branch, without any——

Mr. FORT. These boards of advisory directors have to retain stock in the parent bank, and therefore have a direct financial interest in the way they operate their branch.

Mr. WAKEFIELD. That is true; but that advisory board can not be put together down there so that it has any real authority over the business of that bank.

Mr. GOLDSBOROUGH. Why can it not?

Mr. WAKEFIELD. Because the law does not allow it.

Mr. GOLDSBOROUGH. It does in Maryland, and it has worked for 30 years, and each one of those banks is autonomous and nobody knows which is the parent bank.

Mr. WINGO. I thought that was chain banking.

Mr. GOLDSBOROUGH. No; that is not chain banking. You will have it described to you on the 22d of this month. Of course, there is theoretically a parent park at Cambridge, because it was the first bank, but, as a matter of fact, the local banks are absolutely autonomous—absolutely.

Now, in a recent statement of Mr. Insull's, in which he was discussing holding companies, he made this very significant statement:

"The ability of the holding company to help depends largely on its ability to act without restrictions, other than those in an ordinary private business."

Is that your view?

Mr. WAKEFIELD. I am not familiar with what is involved in that statement by Mr. Insull, because of his entirely different problems.

Mr. GOLDSBOROUGH. Would that be your statement in connection with your holding company?

Mr. WAKEFIELD. No; I have expressed myself before this committee and, in response to Mr. Fort, I have agreed to attempt to set up a formula of supervision and restriction.

Mr. GOLDSBOROUGH. I know, but you have said you wanted to be examined, for instance, by the comptroller or by the banking authorities, which was very commendable; but you have also said, as I understood you a few minutes ago, that you did not think the conduct of your business ought to be interfered with any more than the conduct——

Mr. WAKEFIELD. In connection with that borrowing problem you described.

Mr. GOLDSBOROUGH. Yes.

Mr. WAKEFIELD. My answer to that is based upon this: As far as I am concerned, I would be perfectly willing that a regulation should be prescribed that would prevent our institution ever going out and placing those stocks and borrowing money. On the other hand, I think the principle involved in an attempt to do that would be entirely wrong to American business.

Mr. GOLDSBOROUGH. In other words, you think your holding company which has to do only with banks ought not to be encumbered with the same restrictions as are the ordinary banking institutions?

Mr. WAKEFIELD. I do not think that you can. There is no restriction that says that if you own bank stock you can not borrow money on it, and I do not think you can pass or fix any regulation governing a company of that kind and interfering with the general business structure.

Mr. GOLDSBOROUGH. Do you think the ordinary safeguards which experience has taught us should be placed around banking institutions are right or wrong?

Mr. WAKEFIELD. Right, absolutely.

Mr. GOLDSBOROUGH. Now, if they are right, why should not those same restrictions be placed around an organization which in effect is nothing in the world but the parent bank of a branch banking system?

Mr. WAKEFIELD. All right; I think they should, but there is not at the present any restriction of the kind that you described.

Mr. GOLDSBOROUGH. Now you say that you think they should have them?

Mr. WAKEFIELD. I think they should have the same restrictions that are placed upon present banking institutions.

Mr. GOLDSBOROUGH. Could present banking institutions borrow money on stock that they own and buy common stock with it?

Mr. WAKEFILD. The stockholders of a present banking institution can borrow money on the stock that they own.

Mr. GOLDSBOROUGH. But the institution itself?

Mr. WAKEFIELD. The First Bank Stock Corporation is in effect an individual stockholder of the banks. It is not in the banking business. It is the owner of stocks of the banks. It does no banking business.

Mr. GOLDSBOROUGH. Does no banking business—and yet it controls 91 banking institutions?

Mr. WAKEFIELD. You might individually own the control of a bank; would you welcome a law that said you could not take your bank stock and pledge it as collateral?

Mr. GOLDSBOROUGH. No; I would not welcome it.

Mr. WAKEFIELD. Do you think it should be done?

Mr. GOLDSBOROUGH. I would expect it to be done, or expect to be put out of business.

Mr. WAKEFIELD. No; you would not; you would want it left to your judgment as to what you did with your property, because what you did with the stock in that bank is not going to affect the bank itself.

Mr. GOLDSBOROUGH. Not going to affect the bank itself?

Mr. WAKEFIELD. No.

Mr. GOLDSBOROUGH. The conduct of your institution absolutely controls the very breath that the directors of those banks breathe, and yet you say they exist independently of you?

Mr. WAKEFIELD. Well, we are not getting anywhere in a conversation of this type.

Mr. GOLDSBOROUGH. Well, if you do not care to answer my questions it is absolutely all right.

Mr. WAKEFIELD. I would like to answer them.

Mr. GOLDSBOROUGH. Just simply say so if you do not want to.

Mr. WAKEFIELD. But you have gone into a line of conversation which is all theoretical.

Mr. GOLDSBOROUGH. Theoretical?

Mr. WAKEFIELD. My first answer to you is that I have never had any notion of anybody having any intention in any group company of going out and pledging its stock to buy common stocks on margin, and I do not think it has ever been done.

Mr. GOLDSBOROUGH. Every law is based on a theoretical condition, is it not, if you want to control something that might happen?

Mr. WAKEFIELD. In spite of any law made governing banks, if there is somebody that is absolutely foolish and crazy enough to go and bust his bank, he can do it.

Mr. GOLDSBOROUGH. But you are not in favor of regulating it?

Mr. WAKEFIELD. I certainly am.

Mr. GOLDSBOROUGH. You are in favor of just letting the personal equation be the entire guide?

Mr. WAKEFIELD. No, sir. The argument we are in is one concerning the right of the owner of stock to use his stock in banking at all.

Mr. GOLDSBOROUGH. It is very interesting to get that point of view, because I do not think the committee in the previous hearings has gotten that impression from your testimony.

Mr. WAKEFIELD. I do not know what impression you are referring to.

Mr. GOLDSBOROUGH. What I am referring to is this—one of the things I am referring to—that this committee, in my judgment, from what I know of the committee and from what they have said to me, would not begin to stand for a position taken by a holding company which controls banks exclusively that it should be allowed to do business without the same restrictions being placed around its business as are placed around other banking institutions.

Mr. WAKEFIELD. I agree with you absolutely, but there is not any restriction placed around a banking institution that says that a stockholder of that institution can not borrow money on his stock.

Mr. GOLDSBOROUGH. Well, will you explain what that has to do with the question I have been asking you? In your case, your corporation owns all of this stock.

Mr. WAKEFIELD. It is the stockholder.

Mr. GOLDSBOROUGH. I say that, but yet, in effect, it is in the banking business because it absolutely controls these banks.

Mr. WAKEFIELD. It is in the banking business exactly as any stockholder of a bank is in the banking business.

Mr. GOLDSBOROUGH. We will not get anywhere if that is the way you feel about that.

Let me ask you another question:

You, or either you or Mr. Decker, and maybe both of you, have contended that these constituent banking institutions still have the same local pride that they had when they were owning their own stock locally?

Mr. WAKEFIELD. Yes, sir.

Mr. GOLDSBOROUGH. Now, as I understand it, these directors have to own a certain amount of the stock of a bank in order to qualify?

Mr. WAKEFIELD. Yes, sir.

Mr. GOLDSBOROUGH. But, as a matter of fact, they do not own it at all, because you put such restrictions around them that if they attempt to dispose of the stock, it puts them out of business.

Mr. WAKEFIELD. They own it outright, absolutely; they paid their money for it and have received the dividends on it.

Mr. GOLDSBOROUGH. Did you not say yesterday that they could not sell it?

Mr. WAKEFIELD. No. I said there is no way you could set up an agreement that would hold water whereby you could force them to sell it.

Mr. GOLDSBOROUGH. By which you could force them to sell it?

Mr. WAKEFIELD. Prevent them from selling it or offering it.

Mr. GOLDSBOROUGH. Did you not say that you made every attempt——

Mr. WAKEFIELD. I said we had a gentleman's agreement.

Mr. GOLDSBOROUGH. You did not use that expression.

Mr. WAKEFIELD. I used that expression.

Mr. GOLDSBOROUGH. I did not hear you. Go ahead; you had a gentleman's agreement——

Mr. WAKEFIELD. That if they are going to leave us, they will sell the stock back to us, not to somebody else.

Mr. GOLDSBOROUGH. Do you mean to say that their minds, in dealing with their customers, have the same freedom of action as they would have if they were actually controlling their own institution?

Mr. WAKEFIELD. I can not understand why there should even be a question of that kind asked.

Mr. GOLDSBOROUGH. I do not believe you do, from the testimony.

Mr. WAKEFIELD. A director of any institution, a man who directs or that becomes a director of a bank knows what kind of an obligation he has assumed, and it has been my observation that they understand that fully and the past history of banks has made it obvious to directors of that class of institution that they did have obligations, and I think those who are directors of banks understand fully that they are taking responsibilities when they become directors. The old day, when it was just an honor to be a director of a bank, has passed, and the man who is a director of a bank to-day in our country knows mighty well he is assuming as obligation of responsibility in taking that position.

Mr. GOLDSBOROUGH. But did I suggest that he did not have any such feeling as that? Did I ask you any question that had any relation to what you have just said?

Mr. WAKEFIELD. You just asked whether the directors felt their responsibility.

Mr. GOLDSBOROUGH. I asked whether they have the same freedom of action as they would have if they were not simply vassals. That is what they are.

Mr. WAKEFIELD. You are making the statement that they are.

Mr. GOLDSBOROUGH. I am making the statement upon all the facts you have given us as to your set-up.

Mr. WAKEFIELD. You have assumed a conclusion concerning those facts which is incorrect.

Mr. GOLDSBOROUGH. My dear sir, you have only been in existence for 8 months and your competitor for 13 months, and no secondary reaction has had time to show itself at all. You do not know, and I do not know, and nobody else knows, what the result of this sort of a set-up is going to be as time goes on. What I am trying to find out, and what the committee is interested in, is whether or not this terribly rapid growth ought to be stopped until we find out what it is. This is a serious discussion, and I am not primarily concerned in personal equations, but that has been practically the only thing which has been discussed around this table for three days. This committee is entirely convinced of the business integrity, of the wisdom, of the foresight, of the energy, and everything of that kind of the present set-up of these organizations. There is no criticism of anything of that kind, but what we are trying to get at are the "guts" of the economic structure that is being built up. That is what we are after.

Now, Mr. Wakefield, you agree, do you not, that equality of economic opportunity is the thing we all should try to facilitate?

Mr. WAKEFIELD. If you will explain that, elucidate that——

Mr. GOLDSBOROUGH. You do not know what I mean by that?

Mr. WAKEFIELD. No.

Mr. GOLDSBOROUGH. You have never known, then, of an individual or a business organization to be squeezed out by a group of bankers, or anything of that kind?

Mr. WAKEFIELD. It has not been true in my experience.

Mr. GOLSBOROUGH. That has not been true in your experience. As far as your experience goes—and I am perfectly sincere in this question—banking everywhere as you have known it has been conducted in an absolutely fair way?

Mr. WAKEFIELD. The prime motive back of every successful banking institution——

Mr. GOLDSBOROUGH. I did not ask you that.

Mr. WAKEFIELD. All right.

Mr. GOLDSBOROUGH. I did not ask you about successful banking institutions, as you have based your whole argument on your faith in this institution of yours and on the fact that there have been a great many institutions that were not successful, and both you and Mr. Decker began with this long story, which was a true one, and a very proper one for you to give, of the conditions in your territory and the bank failures which had led up to this structure. Of course, if we had not had unsuccessful bankers, we would not have group banking, branch banking, or chain banking, and this committee would not be considering them.

So you do not understand what I mean by equality of economic opportunity?

Mr. WAKEFIELD. You would have to make a much longer explanation than that in order that I might answer it.

Mr. GOLDSBOROUGH. All right. Now, in view of the fact that these two great institutions in the Northwest have been built up in 13 months' time, and in view of the fact that they constitute an absolutely unchartered sea in so far as banking is concerned, do you not believe as a citizen, and not as a successful banker, not as one who believes himself useful—and I believe you are useful, too, in this exigency down there——

Mr. WAKEFIELD. Thank you.

Mr. GOLDSBOROUGH. But, as a citizen, do you not believe that the least this committee can do is to stop that growth right where it is until we can find out what is going to be the result of that sort of a set-up?

Mr. WAKEFIELD. There are two factors or two things in your statement which I shall have to refer to before I answer your question.

The first is that this big thing that you described as having been built up in a year was in existence and was nothing more than a joining together of those institutions that were in existence. It has not been created. Those banks were there operating, and then, in answer to your question, I think that any legal restriction upon our operations at the present time would be extremely detrimental to the best interests of the territory in which we are operating, and very disastrous.

Mr. GOLDSBOROUGH. Well, I did not mean in that question to suggest that for the present your set-up was to be interfered with, or that any institution which you now control should be, or that any attempt should be made to dissociate that institution from your organization, but my question was this, whether or not you do not think, in view of the fact that this holding-company system of banking is so novel and has had such a rapid growth within the last two years—and that covers the Transamerica, too, within that 2-year period—it ought to be stopped where it is until we can find out what is going to be the ultimate result of that sort of banking? That is my question.

Mr. WAKEFIELD. The only answer I can make to that, Mr. Goldsborough, is what has been said previously, and that is that in my opinion, and I think in the opinion of everybody that is involved in the problem of banking to-day, there should be, if we are to have group banking, restrictions and regulations to govern that business, and there is not anybody that would welcome those any more than we would.

Mr. GOLDSBOROUGH. I think that is all.

Mr. FENN. Mr. Wingo.

Mr. WINGO. I shall not ask many questions, Mr. Chairman.

All of your stockholders live within your Federal reserve district, do they not?

Mr. WAKEFIELD. All except 500. It is in that tabulation. Out of 16,000, there are but 500 that live outside of the ninth Federal reserve district.

Mr. WINGO. Are any of those very large stockholders?

Mr. WAKEFIELD. I could not tell you exactly that the number of shares of stock involved is, but it is a very small proportion of the total.

As a matter of fact, this might be interesting, that it would take—I do not know just how many, but I know it would take hundreds of stockholders, of the larger sockholders, added together to make anywhere near a control of it.

Mr. WINGO. But the greater portion of your stockholders, both in number of individuals and in the number of shares they hold, are directors in your unit banks, are they not?

Mr. WAKEFIELD. Not directors, because we have 16,000 stockholders.

Mr. WINGO. They are either directors or patrons of your institutions?

Mr. WAKEFIELD. Yes.

Mr. GOLDSBOROUGH. May I ask one more question?

How many directors have you in your holding company?

Mr. WAKEFIELD. Sixty-seven.

Mr. GOLDSBOROUGH. That is all.

Mr. WINGO. The point I had in mind was that I think the record will show that the great majority of your stockholders, both as to number and volume of stock held, are local?

Mr. WAKEFIELD. Yes.

Mr. WINGO. That they are around these different units that compose your system and that the holding company controls as part of their group.

Mr. WAKEFIELD. Very largely so.

Mr. WINGO. Have you had a stockholders' meeting since you organized?

Mr. WAKEFIELD. Yes.

Mr. WINGO. Where was that held?

Mr. WAKEFIELD. In Minneapolis.

Mr. WINGO. How many were present in person, if you recall, approximately?

Mr. WAKEFIELD. Just about 100 stockholders that came in.

Mr. WINGO. How many of your different banks were represented in that meeting? Do you recollect whether there was a stockholder from every community present?

Mr. WAKEFIELD. No; I am quite sure there was not.

Mr. WINGO. Under your charter, under the laws of Delaware, you may hold your annual stockholders' meeting elsewhere than in the State of Delaware?

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. And you intend to hold your stockholders' meetings at the head office in Minneapolis, I presume?

Mr. WAKEFIELD. Either St. Paul or Minneapolis.

Mr. WINGO. In other words, you are going to hold them within your local territory?

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. I suppose that a large part of your stock was represented by proxies at that stockholders' meeting?

Mr. WAKEFIELD. Yes, sir

Mr. WINGO. In other words, about the customary situation existed with reference to the meeting of your stockholders as would with an ordinary corporation of that sort?

Mr. WAKEFIELD. That is true. However, in this case the presence of about 100 stockholders was a greatly increased representation of stockholders present as compared with my experience in operating the First National Bank, when it was rare that more than two or three outside stockholders would come.

Mr. WINGO. Do different banks in your group lend on the stock of your holding corporation?

Mr. WAKEFIELD. Some loans have been made, but those loans are being absolutely taken out of the bank. My purpose at the present time is that no loans should be made. I expressed myself yesterday that it should be legally restricted so that a loan on the stock of the holding company could not be made from a bank owned by the holding company.

Mr. WINGO. Well, under the law one of your constituent banks—I will call them that—can lend to one of its customers who own stock in your First Bank Stock Corporation, the parent company?

Mr. WAKEFIELD. At the present time; under the present law.

Mr. WINGO. Under the present law one of those constituent banks can make a loan, with the collateral being the stock of the parent company?

Mr. WAKEFIELD. That is true.

Mr. WINGO. But you say it is the policy of those who are now managing your parent corporation to restrict that, and you feel it would be proper as one of the restrictive provisions in any law that we passed to prevent that?

Mr. WAKEFIELD. I do. I think it is absolutely wrong.

Mr. WINGO. Well, if you did not do that you would have possibilities of pyramiding and it would be very dangerous.

Mr. WAKEFIELD. Surely.

Mr. WINGO. There is some confusion in the minds of some members of the committee, and especially among some of the bankers who either sat here in the room or read some of the hearings, as to what is the distinguishing characteristic of a group bank as compared with a chain bank. Will you give us for our information what your conception of the difference is? Just what is group banking and what is chain banking? How can you distinguish the two?

Mr. WAKEFIELD. I think there is a confusion in the general understanding, and possibly there is not any absolutely accurate description which can be made. My experience has been and my thought and my understanding was that chain banking was such a thing as that which we have always criticised and been looking out for; a certain group would start in and form an individual bank, put it in operation and begin to do business, and then they would decide to put a bank at another point and would let the people that put up the money for the stock of the first bank capitalize the second one.

That is the general impression I have of what I used to think was chain banking until I began to read these hearings, but I have discovered that there is a wide difference of opinion about what chain banking means.

Mr. WINGO. You are not the only man who has been confused from reading these hearings.

Well, now, what would you class this? I just noticed this recently, and frequently you have something right under your nose for years and all of a sudden you will notice the significance of it, and I noticed this since these hearings started: That the name of one gentleman has appeared on three different letters that have come to my office from three different banks; he happens to be president of each one of three State banks. There are three or four gentlemen who are interested in all three of those banks, and yet they are separate corporations in separate towns, two of them in one company and another in another county.

Would you call that a group banking or a chain banking system?

Mr. WAKEFIELD. I do not know. If that particular individual owned the control of all of those banks, personally I should think that it is not group banking as we are talking about it to-day.

Mr. WINGO. I had always understood before this hearing started that a chain bank was where the parent corporation owned and controlled the stock of several constituent banks, and that a group bank was where there was a group of individuals that owned and controlled the stock of a group of banks. Now I seem to be in error or, rather, that conception does not seem to be the one some of you gentlemen have.

Mr. WAKEFIELD. This conception that I just expressed to you of a chain bank was the one we always had in our minds up there as representing chain banking, and we are always anxious not to be thought of in that same lot, and so we chose to call ourselves group bankers.

Mr. WINGO. The only distinction is that you wanted to get away from what you regarded as an evil, of having the parent bank go to the head of another bank and saying, "We want to buy the control of your bank," or "We want you to tie up with us, and we will lend on your stock"; in other words, they would pyramid that way, and the distinction you want to make is that you are not that kind of a chain?

Mr. WAKEFIELD. That is it. That may not be fair, to make that statement in connection with what is now thought of as chain banking, but I say it has all been discussed and muddled up.

Mr. WINGO. It is hardly worth the time to discuss that any further on account of the limited time. I am afraid we have made the confusion worse than we found it—I mean that I have, not you.

Now, what is to prevent one of your national banks—that is, a constituent bank—from doing this: The national-bank examiner comes in and examines it and says, "Here is some paper that I do not think ought to be in here; you will have to take this paper out."

We will take, for illustration, these two banks that you have in Potter County, S. Dak., at Gettysburg; one is the First National Bank and the other the Potter County Bank.

Mr. WAKEFIELD. They have been consolidated.

Mr. WINGO. All right; use them as illustrative. One is a State bank and the other a national bank, and we will assume that they are still in existence. While they are still in existence, the national-bank examiner comes into the First National Bank of Gettysburg and says, "You have to take this paper out of here." They say, "All right." Then they will step across the street to the Potter County Bank and say to them, "We have got to get rid of this"——

Mr. WAKEFIELD. But the Potter County Bank won't take it.

Mr. WINGO. Then within a week or 10 days along comes a State-bank examiner, and he goes into the Potter County Bank and says, "You have some paper here you have got to get rid of." So they will then again step across the street and pass it over into the First National Bank.

Is there anything to prevent that under existing law?

Mr. WAKEFIELD. Not under the law; but the thing that would prevent it would be the directors of the Potter County Bank; they would not receive it from the other bank, in my opinion, and what I have said before is this, that I think that if a group bank system is operated and it has national banks, that that fact ought to authorize the comptroller to make examinations of any bank that it owns, State or national.

Mr. WINGO. In other words, you are getting into this situation with your banks: You have practically the same set-up as a Federal reserve bank. Now, that Federal reserve bank, under the law, has a right to check up on the member bank, even if it is a State bank?

Mr. WAKEFIELD. Yes.

Mr. WINGO. If group banking is to continue, such as yours, do you think in any legislation we may enact there should be some restrictive legislation? I can conceive of occasions arising where a man will say that the national bank examiner does not understand the situation and where a State bank examiner will say the thing is perfectly right and that the national bank examiner is wrong; in other words, you might have something else besides improper practices, and, in order to protect the system, do you think there should be some restrictive legislation?

Mr. WAKEFIELD. I think there should be authority given to the comptroller's office to examine every unit of any group operated, regardless of whether it is State or national.

Mr. WINGO. The question has been asked: How would Congress be able to say that a State bank must submit to that examination?

Mr. WAKEFIELD. I do not know, but I have an idea that if we are operating a group with members of the Federal reserve system in that group, that fact in itself could be a basis for requiring the privilege of an examination. You understand we always pay for the examinations, anyway.

Mr. WINGO. In asking that question—the question was suggested to me—the thought occurred to me that we could find some way.

One way would be that we could provide that no national bank could belong to a group system whose stock is held by a corporation that did not agree to submit to an examination by the comptroller, or by our taxing power, or the use of the mails. There are many different ways we could use to make it effective. If all these different constituent banks of yours were national banks, of course, that question would be obviated, would it not?

Mr. WAKEFIELD. Yes.

Now, if trade area or Federal reserve district branch banking were permitted for your territory, the probabilities are that you would transform your system into a branch bank system, would you not?

Mr. WAKEFIELD. I think we would be obliged to.

Mr. WINGO. You could not avoid it, could you?

Mr. WAKEFIELD. Not within a reasonable time.

Mr. WINGO. In the first place, it would be to your advantage from the standpoint of economic operation?

Mr. WAKEFIELD. I think it would. The only thing I have in mind is that until the time comes when the public is ready for that sort of system, I would be a litttle bit concerned about trying to force it on the various large communities.

Mr. WINGO. What I was trying to do was to detect the trend, and I know of no way of getting the trend of business in any line than to get the reaction of the leaders in that particular business. Now, while I do not believe in anything except the independent unit banks, I have gotten old enough to know I must face conditions and not theories.

You feel, then, that the natural trend would be such that not only from force of competitive necessity, but the very practical consideration of economic administration would lead you gentlemen to transform your system into a branch-banking system?

Mr. WAKEFIELD. I think that is true.

Mr. WINGO. Even if we do not change the law, is it or is it not your opinion that the independent unit banks will continue to dwindle, both in importance and number?

Mr. WAKEFIELD. In the small towns, I think they will.

Mr. WINGO. Take the larger towns; take the cities where they have branch banking: Has not the experience been that the branch-banking systems are eliminating the independent unit banks? First, is the decrease in the granting of charters to independent unit banks, and then the competition has gradually caused independent unit banks to sell out and become branches of a larger system, not always because unfair methods are used—I am not trying to get into an argument over that; I am simply discussing the natural trend and assuming always proper methods are used—but I know in some instances, without any effort made to drive an independent unit bank out of the city, the directors and stockholders of the unit bank have gotten together and concluded that they had better become a branch of a larger bank.

For illustration, I understand the Riggs Bank here in this city have taken over one or two unit banks in the city that afterwards became branches. So the natural tendency in the city is to do that, as well as in the smaller towns?

Mr. WAKEFIELD. Perhaps I can answer that by giving the history of our own city. Our State now has a law prohibiting a bank operating in the State of Minnesota, from operating branches, even within the city. A few years ago that restriction did not exist. There was no law to that effect. At that ime—I was not then connected with the bank—our bank bought outlying banks and converted them into branches. We have three operating to-day that were established before the legislature passed the law prohibiting further branches. To-day, we can not establish branches outside of our main office, but in spite of that, the number of individual banks in the city has steadily decreased. There are less now than there have been at any time, and the interesting factor in connection with that is this, that each year, some time during the year, we are waited upon by a delegation of citizens from some improvement association or from some section of the town, with the request that we put an office out there. They explain they have a growing trade center and want banking facilities and ask us to put them there. Of course we can not do it.

Mr. WINGO. I want to get your reaction on the present trend of banking organization, just assuming that we did not change the law, but stood pat—to use an expression I have heard used, sometimes: Take my State, for instance, that does not permit branch banking. We have some branches, but at the present time we do not permit branch banks to be established. Nevertheless, there has been a gradual decrease in the number of banks and in the importance of those individual unit banks, and a growth in chain or group banking. For illustration, I know of one group that, until recently was controlled by one man mainly, a man of high character who commanded the respect of the business world. A bank would get into trouble in a small town. They knew he was president of, or through his business associates, controlled banks, and so the citizens would wait on him and say, "We wish you would take over this bank." In two or three instances, they appointed a committee, after the bank was closed, to wait on him and ask him to take over the bank or become the head of a reorganized bank.

The last time I made inquiry about that, the comptroller suggested that in that group or chain, there were 55 banks. That has been built up by that kind of process more than any desire of his to build up a chain. His chief business has been insurance, but he has developed into this other.

Now, that natural trend in my State is further accentuated almost week by week. I notice in my State where two banks in some of the smaller communities—and that means outside of the four or five cities, like Little Rock, Fort Smith, and Pine Bluff—there is a consolidation of two banks where perhaps both of them were apparently doing very well, and in some instances, I would hear it whispered under cover that we had a consolidation of bank A and bank B because bank A got in bad shape and "We took it over."

I find that process going on in my own State, and is not that the natural trend in your section?

Mr. WAKEFIELD. Yes, sir; and the superintendent of banks of the State of Minnesota has been privately and constantly advocating the consolidation of banks and units into bigger units, in order that the small units may be built up to a size that will enable them to go ahead properly.

Mr. WINGO. They have reached that conclusion, but naturally these things have influenced it, such as changed conditions like par exchange on checks, and the elimination of exchange on remittances on checks that come in. There are many reasons why the banking business has become not only less profitable, but, in some instances, almost impossible for them to make enough to pay their expenses.

Then, in other instances, there is the attraction of larger banks offering greater facilities and better service which has taken their business away from them by gradual accretions, so that they found they could not longer exist.

Mr. WAKEFIELD. I think that comes primarily from the natural development of the age and the country, and this fact being worked out: In the early days, in the past history of our territory, a small bank could secure very high rates for money that they were loaning, and gradually, as those people grew in size (that is the customers and borrowers of those small banks) they discovered they could go on to some place else and borrow the money at the current market rates, if their credit was substantial. So, I think the banking business generally is coming nearer to a uniform level of rates charged and service rendered, which means that unless there is a sufficient amount of commercial banking business at a point, it can not justify or pay the expenses of an organization at that point.

Mr. WINGO. Then I have noticed this: It is not only true in my own district, but I have been told it is true in other sections of the country, that with the improved highways and motors, villages—and by that I mean the great mass of smaller towns—in a large number of instances are being destroyed by the people moving to the county seat, or the metropolis due to the fact that, with improved highways and motors, a point 25 miles away is nearer now than the local village bank used to be formerly, 5 miles away.

Mr. WAKEFIELD. There is no question but that the east of transportation and the development of good roads has changed the habits of the people of the country. They now prefer to go to the place where there is a good moving picture and where the stores are better and different, rather than stop at the little village where they used to transact their business.

Mr. WINGO. Yes; I know that is true. I can meet at a moving-picture house in my town people who come there in cars from towns that I know are 50 miles away—people that I know.

You have stated that if we did not pass any laws at all, that was the natural tendency and it meant the ultimate extension of these large branch banks into the smaller towns. Suppose that we should believe in the independent unit bank and would put a restraining order in the statute that would prevent the organization of any more branch banks in the United States: What effect do you think that would have upon the maintenance of these independent unit banks in these small towns?

Mr. WAKEFIELD. I am afraid that would result in a considerable diversion of the banking business into the State systems, following along the lines of the recommendation of our own superintendent of banks, that the legislature authorize State banks, within certain areas, to take care of the situation with branches.

Mr. WINGO. Suppose all the States followed the suit of the Federal Government: Do you think that business would be sufficiently profitable to maintain small independent unit banks in the small communities?

Mr. WAKEFIELD. No, sir; I think you would force closings in those towns.

Mr. WINGO. And that would force those people to go further to get to an independent unit bank?

Mr. WAKEFIELD. Yes, sir; I think so.

Mr. WINGO. Now, some question was asked about your capital stock liability, but I believe you said, as far as you are concerned, you are perfectly willing that there should be 100 per cent liability on that stock.

Mr. WAKEFIELD. Yes, sir.

Mr. WINGO. But, as a matter of fact, the First Bank Stock Corporation is liable under the law of your State to a 100 per cent assessment on the stock of the constituent banks owned?

Mr. WAKEFIELD. Yes, sir. It goes further than that. We would not last a minute if we had an occasion where the liability in connection with that individual bank was greater than the capital stock of that bank, and we did not supply it. We would be out of business.

Mr. WINGO. I do not believe I care to ask any further questions. I thank you very much, Mr. Wakefield.

Mr. BUSBY. How many systems of group banking are there in the ninth Federal reserve district?

Mr. WAKEFIELD. Of group banking?

Mr. BUSBY. Yes.

Mr. WAKEFIELD. I do not know just how to answer that. There are, of course, the two—the Northwest Bancorporation and ourselves—which are the large ones. There are others. For instance, J. W. Black Co. are interested in a group of banks.

Mr. BUSBY. Of about how many?

Mr. WAKEFIELD. I think 10 or 12. I can not be accurate about that. There are two or three cases where there are individuals who have a group of banks and are operating them. There is the Isaac Hazlett group. I forget how many banks he has. That has been in existence for many years.

Mr. Otto Bremmer, of St. Paul; I do not think he is a controlling stockholder, but he is a stockholder in a large number of banks in that territory.

Mr. BUSBY. How many in that group?

Mr. WAKEFIELD. About 75.

Mr. BUSBY. And the Hazlett organization has about how many?

Mr. WAKEFIELD. Probably 10 or 15 banks in the Hazlett group.

Mr. BUSBY. And the First Bank Corporation has, I believe you said, 91?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. And the Northwest Bancorporation——

Mr. WAKEFIELD. I think they said they had 98.

Mr. BUSBY. Do you know how many banks are operating in the ninth Federal reserve district?

Mr. WAKEFIELD. Two thousand two hundred and fifty.

Mr. BUSBY. Two thousand two hundred and fifty?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. So there are about 300 of those banks that are in the group system?

Mr. WAKEFIELD. I think that would be about right.

Mr. BUSBY. What is the attitude of the independent banks and bankers toward your group system in the territory in which you operate in competition with them?

Mr. WAKEFIELD. We have at the present time practically—well, I would say there was 60 per cent of those banks that are independent banks who are customers of the First National Bank of St. Paul and the First National Bank of Minneapolis. They are our friends and customers.

Mr. BUSBY. Customers to what extent and in what sense?

Mr. WAKEFIELD. They carry deposits with us and transact their business with us.

Mr. BUSBY. Does that mean that you have amicable leanings toward them and their business operations and that you are ready to cooperate and coordinate your efforts where there is need of assistance for them on your part?

Mr. WAKEFIELD. Always. Every year we loan those banks large amounts of money.

Mr. BUSBY. Of those independent banks—you say 60 per cent are your customers——

Mr. WAKEFIELD. And the other 40 per cent, of course, there is a duplication in that 60 per cent. Some do business with the Northwestern National Bank in addition to doing business with our two banks.

Mr. BUSBY. How about the other banks that are not customers of yours?

Mr. WAKEFIELD. They are all customers of ours, or of the other groups.

Mr. BUSBY. All of the 1,950 that are not in your systems are the customers of your systems, and therefore somewhat dependent on your systems for banking assistance in times of need?

Mr. WAKEFIELD. The Twin Cities banks have been the depositories of the banks in the ninth Federal reserve district for many years.

Mr. BUSBY. Now, what is the Twin Cities bank?

Mr. WAKEFIELD. The Twin Cities banks—they are the banks located in Minneapolis and St. Paul.

Mr. BUSBY. You do not mean individual banks?

Mr. WAKEFIELD. Yes.

Mr. BUSBY. What are the names of the individual banks?

Mr. WAKEFIELD. Well, there is the First National Bank of Minneapolis, the Northwestern National Bank of Minneapolis, the Midland National Bank of Minneapolis, the Metropolitan National Bank of Minneapolis, and the Marquette National Bank of Minneapolis.

In St. Paul they have the First National, the American National, the Empire National—I can not remember them all.

Mr. BUSBY. That is sufficient to illustrate. You mean to say, in other words, that St. Paul and Minneapolis are the banking centers for the ninth Federal reserve district and to those centers all the banks of that district come for banking contact?

Mr. WAKEFIELD. That is right.

Mr. BUSBY. Since you have organized these two very powerful, extensive and active groups of banks under the holding corporations, St. Paul and Minneapolis are even more the centers of financial operations in that district?

Mr. WAKEFIELD. It is probably accentuated to some extent. They have always been centers, however.

Mr. BUSBY. Is there not considerable dependence on your and the other banking groups—more than there was before?

Mr. WAKEFIELD. No; but there is just as much. When one of those banks in the country needs help, they come straight to us.

Mr. BUSBY. They feel you are operating in the banking field as a friend to the other banks, as well as to secure business and make profits out of your enterprise?

Mr. WAKEFIELD. Our relations, as far as I know them, with those customer banks are cordial and are as complete as always.

Here is an instance that occurred the other day. There was a farmers and merchants bank in Winette, in the oil district in Montana. They came to us a while ago and talked about joining up with us. That negotiation was not completed, and the bank closed. After it closed, the stockholders and depositors that represented the whole group of Winette, met and prepared a petition which was printed in the Winette paper, a copy of which I have here, in which they petitioned the First Bank Stock Corporation to come out there, and they said that they, as individuals, would raise whatever money was required to pay out the poor paper in the bank, if we will come and organize and open a bank there.

Mr. BUSBY. What was their purpose in doing that?

Mr. WAKEFIELD. It is pretty well described in this statement [exhibiting].

Mr. BUSBY. In a few words——

Mr. WAKEFIELD. They describe their location, the fact that the nearest bank east is 98 miles and the nearest bank west is 26 miles; that it is the county seat, and they feel they ought to have a bank there.

Mr. BUSBY. They have no hope of getting a return of their stock—in other words, they have lost money?

Mr. WAKEFIELD. They, as citizens of the town, are willing to put up the money to get us in there.

Mr. BUSBY. It is more of local business pride than the advantage they may derive?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. In establishing a bank there, you assume no responsibility whatever for any errors committed in the banking operations at that place?

Mr. WAKEFIELD. That process would have to be this: It would mean you would have to organize a new bank and take over such assets as acceptable and assume the deposit liabilities of the old bank.

Mr. BUSBY. You described your stock operations yesterday in regard to organizing your holding company. If I remember correctly, you stated you had $22,000,000 in assets and you exchanged that for $30,000,000 in stock in the holding company.

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. What did the $8,000,000 difference between the $22,000,000 as assets and the $30,000,000 in stock, represent?

Mr. WAKEFIELD. It represented a situation like this—at that time if you owned 1 share of First National Bank stock, you could sell it for $220.

Mr. BUSBY. Yes.

Mr. WAKEFIELD. We had no desire to attempt to capitalize the holding company to take over the stock at its then market value, because we felt if the holding company took it over it should show at an appreciated value in the holding company's stock. So we figured a basis which seemed fair and agreeable of $100 of the stock of the holding company for each share of the stock of the bank.

Mr. BUSBY. As a matter of fact, the four shares in the holding company were worth on the market more than $100?

Mr. WAKEFIELD. Yes; at that time the market put them up equal to the bank stock—practically $55 a share.

Mr. BUSBY. $220 for the four shares?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. What did the $8,000,000 represent?

Mr. WAKEFIELD. Capital value in the set-up. It is not a matter that you can figure any way you want to.

Mr. BUSBY. Is not this the situation: You fellows were setting up the holding company and determining the size of shares and par values and the exchange ratios, and the $8,000,000 represented a margin of safety more than anything else, did it not?

Mr. WAKEFIELD. No; that thought never came in. I know how it was done. It represented delivering shares of the stock in the holding company which would be an equivalent to the thing that the fellow owned before he got it.

Mr. BUSBY. At the time you gave the figures I figured that the actual market value of the four shares of the holding company's stock you would receive would just about equal the market value of your bank stock, per share, and that the $8,000,000 was what we would commonly term "water."

Mr. WAKEFIELD. All right. The market value——

Mr. BUSBY. What do you say about that feature of it, before we leave the $8,000,000?

Mr. WAKEFIELD. We do not regard it as water. It is done——

Mr. BUSBY. I understand how it was done, but water in a stock transaction represents an issue back of which is no economic value or back of which you have no assets, or to represent which you have no assets.

Mr. WAKEFIELD. Watered stock, as the term is used, has usually represented a set-up of stock that has been sold at a price which included the water. In this case it was not sold to the public. It was given to the people who owned the stock originally. You might say that $220 a share for the First National Bank stock would have a lot of water in it.

Mr. BUSBY. No.

Mr. WAKEFIELD. That $8,000,000 represented good will and earning power of that bank.

Mr. BUSBY. That is the most substantial basis on which you could put it.

Mr. Wakefield. That is the sound basis.

Mr. Busby. Did you assign that basis to it when you issued it?

Mr. Wakefield. That was the basis—earnings, capital assets, good will and prospects of that bank, and deposits.

Mr. Busby. Outside of good will, you had collected in stock of equal value to the amount that you had involved in your banks?

Mr. Wakefield. Collected what?

Mr. Busby. In getting stock in your holding company of equal value for all of the assets you had in your banks, outside of the good name of the bank.

Mr. Wakefield. Let us get this picture in this way: You are an individual and you want to buy some stock——

Mr. Busby. Pardon me just a moment. I can not examine you if you insist on directing questions to me all of the time.

Mr. Wakefield. I am making a statement to you. I am an individual and want to buy some stock in the First National Bank of Minneapolis. I pay $200 a share for it because I believe it is worth it. I have bought it at a price which includes the future prospect and earning power and good will of that bank, have I not?

When we set up our holding company, we did not do that literally, because we did not want a capitalization that represented any such market price. We believed the market price was higher than it should be. We capitalized it down close to the asset value, giving consideration to all those things.

Mr. Busby. Take the original question: If the $8,000,000 represented your good name largely, you still had that in your old banking institutions, did you not?

Mr. Wakefield. Yes; and have it yet.

Mr. Busby. There was no necessity of paying the holding company, because you set up a holding company, or taking any shares of the holding company you set up because your bank had a good name in the banking field, was there?

Mr. Wakefield. Well, now——

Mr. Busby. But you do not answer my question. You insist on explaining something else. If you were in a court, there would be objection to your answer and you would be directed to answer "yes" or "no."

Mr. Wakefield. You do not ask questions that I can answer "yes" or "no" to. You ask me questions to which I object to saying "yes" or "no." I can not say "yes" and——

Mr. Busby. Then you can say "no."

Mr. Wakefield. And I do not want to say "no," because that would not be correct.

Mr. Busby. Then, we will quit.

Mr. Wakefield. Let me explain this to you: In our stock transaction the stock went to the stockholders of the bank. There was nothing involved except an exchange of stock.

Mr. Busby. And the bank remained as it was?

Mr. Wakefield. Yes, sir.

Mr. Busby. And it took the same good name it had?

Mr. Wakefield. Yes, sir.

Mr. Busby. And continued practically uninterrupted, as if no holding company had been organized?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. That being the case, I can not see the reason for extending to the persons who had formerly owned the bank stock that had turned it over to a holding corporation—I can not see the advantage of giving those same persons $8,000,000 in shares of the holding corporation, when all the shares of the holding corporation had been paid for by the bank stocks, dollar for dollar.

Mr. WAKEFIELD. All right. In no case where we have taken over a bank, even though it was a bank that was, as some one suggested yesterday, given to us, have we failed to recognize in the price paid for that bank a percentage value of the deposits of the bank. If that was recognized in the deposits of the bank in Minneapolis, it would have almost covered the $8,000,000.

Mr. BUSBY. What did the holders of the bank stock give for the $8,000,000?

Mr. WAKEFIELD. They gave their stock in the First National Bank, which they could have sold for twice that amount.

Mr. BUSBY. Well, they got twice that amount. They got $22,000,000.

Mr. WAKEFIELD. No; they got stock in the holding company.

Mr. BUSBY. In the holding corporation?

Mr. WAKEFIELD. Yes.

Mr. BUSBY. I see why you fellows are good bankers. Now, you say those banks out there can not make money where they are operating as individual banks?

Mr. WAKEFIELD. It is becoming more difficult for them under present conditions.

Mr. BUSBY. Why can't they?

Mr. WAKEFIELD. Well, there is a point—in order to operate a bank you have to have a capital structure which is set by law; how much that shall be. You have to have vaults, a place to do business, and have to have a group of officers.

Mr. BUSBY. Yes; I know that.

Mr. WAKEFIELD. And you have to pay taxes on that capitalization. Unless that bank is at a point where the deposits are particularly large so that they can earn all those costs and a return on the investment and a sufficient margin to cover losses, they can not operate successfully.

Mr. BUSBY. Well, a bank with $500,000 in deposits is not an unusual bank, is it?

Mr. WAKEFIELD. If you were here all the time, you heard me tell about a lot that were very much less.

Mr. BUSBY. In my section, banks with $25,000 and $50,000 capital frequently have $750,000 in deposits.

Mr. WAKEFIELD. That is not true in our section.

Mr. BUSBY. That is not so?

Mr. WAKEFIELD. No.

Mr. BUSBY. And yet there is all that money described by the gentleman who represented the Northwest Bancorporation as being in the country and lying out in hidden places, available for them if they have a bank in which people have confidence.

Mr. WAKEFIELD. That is what we are trying to do, get that money.

Mr. BUSBY. Don't you think that the bank failures in that section of the country are due to the deflation in land and agricultural commodity values?

Mr. WAKEFIELD. That has been an important factor, but it has been accompanied by a change in conditions and a change in banking trend that has taken place.

Mr. BUSBY. A few days ago I checked over the report of the comptroller—Mr. Pole—and I found that in nine of the States lying in the Central Northwest section, comprising about 14⅓ per cent of the population, you had 56.2 per cent of the bank failures of the country, or 56⅕ per cent of the 4,925 banks that failed between 1921 and 1929.

Do you know, as a resident of that section, that the securities taken by the banks—such as lands, livestock, wheat, and other agricultural products—have practically ceased to be a safe form of security or collateral to offer for loans?

Mr. WAKEFIELD. No, sir; that form of securities and the deflation of the agricultural situation was an important factor in closing banks. There is no question about that. But this type of security is taken and being taken to-day in a manner perfectly sound and safe, and is the best security you can get on earth.

Mr. BUSBY. If your banking system had gone into this same field in 1921 and remained there through this inflated period, don't you think it would have been seriously crippled, even though it had the judgment of men behind it that your corporation has behind it?

Mr. WAKEFIELD. No, sir; I do not. I know of any number of instances where men ran banks in that territory side by side with others that failed.

Mr. BUSBY. What would have been your policy toward making loans—what do you think would have saved those banks?

Mr. WAKEFIELD. An intelligent basis of credit.

Mr. BUSBY. You would have refused credit to some that the other banks extended credit to?

Mr. WAKEFIELD. I think I would not have made loans the same way.

Mr. BUSBY. Mr. Young, Governor of the Federal reserve system, stated that if many of those banks had applied for membership in the Federal reserve system in 1917 and 1918, that he estimated as many as 2,500 banks that later failed would have been taken into the Federal reserve system on what they understood about them and about judging bank's assets at that time.

Mr. WAKEFIELD. I do not think that——

Mr. BUSBY. You have understood better than that?

Mr. WAKEFIELD. I think that is probably true; but remember, the basis upon which a bank might become a member of the Federal reserve system at the time he described was on the condition of the assets as of that time.

Mr. BUSBY. Do you not think that, with all of the bank crashes and the financial upheavals that have come about in the last few years, including the recent stock-market crash, you are exceedingly opportune in coming forward with your group-banking system at this time; so much so that you can put it over better now than at any time prior to this, and you will be better able to put it over now than when things have gotten back to a normal basis? Do you not think that is the situation?

Mr. WAKEFIELD. That is partly true; yes. There is no question but what there is a change in sentiment based upon this fact, that the thing that the public wants in our territory is banking facilities in which they have confidence and which they believe will take care of them in a proper banking way.

Mr. BUSBY. I am going to get through in a little bit. Why is it that your bank can thrive and make money with other banks are failing? After all, that is the thing we are trying to find out.

Mr. WAKEFIELD. I think, as Mr. Decker said—and I would like to repeat—there are two factors involved in that, and one is management.

Mr. BUSBY. You have to have something to manage. What I am talking about is the concrete application of your business principles to instances.

Mr. WAKEFIELD. I know of no occasion in our territory where it has failed.

Mr. BUSBY. What is so different in your case that the other banks can not get hold of?

Mr. WAKEFIELD. Nothing.

Mr. BUSBY. Can you give us a detailed explanation of how you get dividends on the things that they handle but out of which they can not get dividends?

Mr. WAKEFIELD. A large part of the difficulty is based on the ability of the community in which the bank is located to furnish the business to make it a success.

Mr. BUSBY. I agree that if a bank is located in a place where there is no business it can not thrive.

Mr. WAKEFIELD. Yes; and you must remember that there has been a great shift in business.

Mr. BUSBY. How much dividends does your holding corporation pay?

Mr. WAKEFIELD. One dollar per share.

Mr. BUSBY. Is that dollar rate a fixed amount?

Mr. WAKEFIELD. It is always determined by the board of directors, based upon the earnings of the bank.

Mr. BUSBY. Are all your dividends declared through your holding corporation?

Mr. WAKEFIELD. Yes, sir. The banks individually declare the dividends, and they declare that dividend to its stockholder, which is the First Bank Stock Corporation. It is from the receipt of those dividends that the corporation pays its dividends.

Mr. BUSBY. What becomes of the remainder of the dividends from those banks?

Mr. WAKEFIELD. It is put into the reserve of the banks.

Mr. BUSBY. Your system has not existed long enough to build up satisfactory reserves in these group banks in every instance?

Mr. WAKEFIELD. No; some banks have not been permitted to pay any dividends. They have held all earnings in order to build it up.

Mr. BUSBY. They get a dividend on the holding-company stock, just as the more prosperous banks get?

Mr. WAKEFIELD. The stockholders do.

Mr. BUSBY. What is the best dividend that could be paid if all earnings were declared and none were passed to surplus?

Mr. WAKEFIELD. That would always be a fluctuating amount. Based upon the experience of the last year—that is, giving credit to each individual unit for its earnings for the year—the total earnings of the group were $7,300,000, approximately, and the payment in dividends was $3,000,000—equivalent to $2.41 a share as the average gross earnings of the institution.

Mr. BUSBY. If you run along for a few years, and have the same success you have had, you will be able to increase your dividend payments on your holding company stock quite materially, will you not?

Mr. WAKEFIELD. We should be able to do that if we can maintain those earnings.

Mr. BUSBY. I notice that quite a number of you gentlemen who are directors in the holding corporation are directors in the subsidiaries of that organization.

Mr. WAKEFIELD. Not bank subsidiaries.

Mr. BUSBY. I mean your trust companies.

Mr. WAKEFIELD. We have a trust company operated in Minneapolis.

Mr. BUSBY. I notice some of them are presidents of railroads and directors.

Mr. WAKEFIELD. That is true.

Mr. BUSBY. Now, is it not a fact that your financing corporation will be more lenient toward an application for financing from some of its subsidiaries, than from outsiders?

Mr. WAKEFIELD. What do you mean——

Mr. BUSBY. For instance, if a railroad wants to borrow money——

Mr. WAKEFIELD. I wish we could make some of those railroads apply to us. They do not do it.

Mr. BUSBY. Where do they put their bonds or stocks?

Mr. WAKEFIELD. In New York and Chicago.

Mr. BUSBY. You fellows are too careful, I imagine, for them.

Mr. WAKEFIELD. We would like to get it, but those are old associations, and we can not get them.

Mr. BUSBY. A man who wants credit looks out for himself—that is what you stated, is it not?

Mr. WAKEFIELD. I said he usually gets credit according to the justification for his receiving credit.

Mr. BUSBY. Do you not think credit is very uncertain as to whom it will favor?

Mr. WAKEFIELD. It is my experience that credit favors the fellow——

Mr. BUSBY. Have you not heard the proverbial expression that a fellow takes his hat in his hand and goes out to borrow money to meet his obligations?

We saw a man going through here the other day from an Oklahoma bank to New York hunting finances, and I think we find men doing that all the time, trying to get money, where they have plenty of assets.

Mr. WAKEFIELD. They always get it, do they not?

Mr. BUSBY. Well, I have not seen them all, but I do not think so. Do you have any suggestions in regard to the thought that credit is inclined to come together and form a monopoly?

Mr. WAKEFIELD. It is my honest opinion that credit is the last thing in the world that any one in the world will get a monopoly on.

Mr. BUSBY. The New York Times, a few days ago, published a list of 12 banks in the world, 5 in the United States and 3 in New York, that had combined assets of more than $20,000,000,000, which is a fourth more than all the gold and silver in the world. Do you call it credit combining, where banks——

Mr. WAKEFIELD. Why, the Chase National Bank, of New York, has total assets to-day amounting to twice the total resources of our entire Federal reserve district.

Mr. BUSBY. I understand it is about $3,000,000,000.

Mr. WAKEFIELD. But that is not a monopoly of credit, although it furnishes very acute competition.

Mr. BUSBY. Bringing all of the banks that are embraced in this Chase National Bank together, in forming that gigantic merger—is not that a combination of credit?

Mr. WAKEFIELD. Well, yes; it is.

Mr. BUSBY. If you get enough combinations like that together, so that you would have a combination representing thirty-five or forty billion dollars of banking credit, would you not be approaching a monopoly?

Mr. WAKEFIELD. Yes; if you could do that, but it would not exist for more than about two weeks.

Mr. BUSBY. Is there any law preventing that?

Mr. WAKEFIELD. I do not know that there is.

Mr. BUSBY. Do you not think there ought to be a law to prevent that?

Mr. WAKEFIELD. No.

Mr. BUSBY. Do you not think if they continued to bring in the biggest banks and then bring together still bigger banks, that it will become dangerous?

Mr. WAKEFIELD. They will have an unending job on their hands.

Mr. BUSBY. Do you not think there is a limit to the credit to be issued in a country where the total assets of the country are limited to $300,000,000,000?

Mr. WAKEFIELD. I do not think there is a way to do that.

Mr. BUSBY. Do you think there could be any more credit possible than would bear a proper relation to the assets of the country?

Mr. WAKEFIELD. I do not think there is any way in which anyone can ever go to work and put a ring around the credit of this country.

Mr. BUSBY. Do you know anything of the rumors in the banking world to the effect that certain South American countries came to big New York banks negotiating loans and had to pay individuals, who spoke for those countries, securing the loans, millions in commissions in order to get a hearing at the hands of the bankers?

Mr. WAKEFIELD. I know that there are in New York various groups that are constantly in keen competition for financing of that type.

Mr. BUSBY. That is not my question at all.

Mr. WAKEFIELD. Well, I do not know. I never heard of it.

Mr. BUSBY. Do you not know that it is rumored that one of the South American countries came to New York and borrowed $40,000,-

000 and a certain gentleman who negotiated that loan, kept $12,000,-000 of it that the South American country never did get and never will get, for commmissions for handling the big loan of the South American country?

Mr. WAKEFIELD. I have been in the bond business and business relating to it a great many years, and it sounds almost impossible.

Mr. BUSBY. You never heard of it?

Mr. WAKEFIELD. No, sir.

Mr. BUSBY. Do you not think that if these trust subsidiaries were taken away from your holding company, that one of its chief sources of income would be cut off?

Mr. WAKEFIELD. No.

Mr. BUSBY. You heard Mr. Decker tell about making $2,800,000 by a stock manipulation within his own Northwest Bancorporation—selling it to an underwriting syndicate and then proposing to buy it back at about $3,000,000 less than they sold it for, because he said he put over a good piece of merchandising?

Mr. WAKEFIELD. That was a perfectly proper and regular business transaction.

Mr. BUSBY. Do you think banks should be tied up with an organization that puts that over?

Mr. WAKEFIELD. There were no banks connected with it. The underwriters of that stock agreed to underwrite 150,000 shares. They agreed to underwrite 150,000 shares of that stock, which was offered to the stockholders at $72 a share, and, on the proportion of that stock which they were obliged to take and pay for, they were supposed to get at $70. That was $2 a share commission for assuming the responsibility of underwriting.

Mr. BUSBY. Assuming the responsibility is what I am getting at.

Mr. WAKEFIELD. They assumed that responsibility and those underwriters lost the difference between $54 and $70 a share, which they paid for it. But the corporation itself had no thought except the thought of selling its capital stock.

Mr. BUSBY. Under former banking practices and the purposes of banking, that kind of transaction was entirely outlawed, was it not?

Mr. WAKEFIELD. Never. It was never—there was never a time when it was not perfectly legitimate for banks, or anyone else. If our bank wanted to increase its capital stock, there would not be anything wrong with it, or unusual.

Mr. BUSBY. Do you not feel that that type of business is undesirable?

Mr. WAKEFIELD. Not that type; that type is all right.

Mr. WINGO. I am not sure about this and possibly those who read the record may not be sure. As I understand, these underwriters, while, in this particular case they suffered a loss, if their judgment had been sustained, they would have made a profit?

Mr. WAKEFIELD. Yes; of $2 a share.

Mr. WINGO. In other words, their faith in the future price of that stock proved to be unfounded?

Mr. WAKEFIELD. That always happens in the underwriting business. You can not guess right always.

Mr. WINGO. This was a customary underwriting transaction?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. I want to ask you what those same underwriting organizations do with that stock in placing it on the market?

Mr. WAKEFIELD. In this case they sold it and took their loss.

Mr. BUSBY. What was their purpose to do with it?

Mr. WAKEFIELD. The purpose was to sell it and make the difference in the price at which it was bought and the price at which it was sold.

Mr. BUSBY. Was it listed on the Chicago and New York exchanges?

Mr. WAKEFIELD. Yes, sir; it was.

Mr. BUSBY. And the people did not take it?

Mr. WAKEFIELD. No, sir; because the market went off.

Mr. BUSBY. What do you think about the idea ultimately, through the World Bank for International Settlements, of there growing up a superfinancial organization that will not only control credits in foreign countries, but in America?

Mr. WINGO. You are going to infringe on Mr. McFadden's copyright.

Mr. WAKEFIELD. That is beyond my——

Mr. BUSBY. What is your idea of the original reparation bonds, to the amount of $300,000,000 that are to be taken over by the Bank of International Settlements, being placed on the market of this country through the New York banks, and subscribed by the American people?

Mr. WAKEFIELD. I am not well enough informed as to the set-up and what is going to be offered, to make any expression.

Mr. BUSBY. What do you think of the Federal reserve banks buying Government bonds and bankers bills in sufficient quantity to force credit, unasked for, into the banking field of more than half a billion dollars, within the last 30 days? Do you think that is a thing to be desired now, when money is easy and no one wants money?

Mr. WAKEFIELD. I am not familiar with just what the Federal reserve has done, but I am a great believer in the Federal reserve system.

Mr. BUSBY. So am I; but do you think we need a great amount of credit thrown on the market when money on call is around 2 and 2½ per cent; when it is so easy nobody cares for it, and the Federal reserve forces it on the banking institutions of the country and in competition with them for the business that is available in these depressed times?

Mr. WAKEFIELD. I do not know. It may be entirely justified. If that would act as a means of stimulating business, it may be very desirable. You are getting out beyond my depth.

Mr. BUSBY. I am afraid I am not. I am afraid I am getting out beyond where you want to go. Do you not think it would be a very helpful factor in the disposition of $300,000,000 of German reparation bonds, if there was a lot of easy money when they arrived here?

Mr. WAKEFIELD. Yes; I presume so. I do not think that we in this country can completely disassociate ourselves with world conditions any more.

Mr. BUSBY. I understand. This is a sort of winding up swing. We have been talking about everything else, and I thought we might as well take a crack at that.

Mr. FORT. I have just a few questions I should like to ask you in connection with matters that have been brought up since I questioned you.

In regard to the question of the propriety of your institution, the First Bank Stock Corporation, borrowing, it might happen in some stage of the game when banking conditions were particularly disturbed that you might have to borrow on your assets through your inability to sell further amounts of your own stock in order to get cash to protect some bank?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Banks are permitted to borrow on collateral, are they not?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. There is no distinction between what you can do and a bank can do, under the law?

Mr. WAKEFIELD. That is true. The question was whether we should borrow to buy stocks on margin.

Mr. FORT. Banks borrow to protect their investments by loans and other methods at times?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. And they borrow from the Federal reserve bank very frequently?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Your purpose being to purchase bank stocks, you may be justified in some instances in borrowing to make that purchase?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. In some of these groups I see a reference to the percentage of total outstanding stock owned by the corporation, which runs, in some cases, up to 100 per cent?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. That is impossible if your directors own qualifying shares?

Mr. WAKEFIELD. We included the qualifying shares as originally being in our possession.

Mr. FORT. In connection with Mr. Goldsborough's questioning today, I have looked back to your testimony of yesterday when I was questioning you on the power of your corporation to regain from any director the stock you sold to him. You did not use exactly the same language yesterday, namely, that it was a gentleman's agreement. You said that you had tried, with the best lawyers you could get, to tie it up.

Mr. WAKEFIELD. But found it was impossible from a legal viewpoint. You will find that in there somewhere.

Mr. FORT. You may have meant that, but that is not what you said.

Mr. WAKEFIELD. I said it somewhere.

Mr. FORT. Not in the questions I asked you. I have the record here and the question and answer you made are as follows: I will read your answer.

They are required to buy; a man is required to buy the number of shares to qualify as a director, which he owns outright.

Then I asked you:

He buys them through you?

Mr. WAKEFIELD. Yes.

Mr. FORT. You would have to keep some string on them so that he can not resell them if he is out as a director, would you not?

Mr. WAKEFIELD. We try to.

Mr. FORT. I suppose you are advised as to whether that is strictly legal?

Mr. WAKEFIELD. Well, we have used good attorneys, I think.

Mr. WAKEFIELD. Then, read on further.

Mr. FORT. That is all.

Mr. WAKEFIELD. There is another place where I said something about that.

Mr. FORT. I did not happen to be in the room when that remark was made. I thought you should have a chance to amplify on that if it is not exactly what you intended to say.

In your group, do you interchange information as between the banks for the passing of credit lines between individual borrowers?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. That is for the purpose of checking up the borrower's own statement?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Do you fix the total credit line for the entire group?

Mr. WAKEFIELD. In the purchase of commercial paper we do.

Mr. FORT. I think we talked yesterday concerning individual borrowers who might want to borrow from local bank A and local bank B both. Assuming they were both members of the First Bank Stock Corporation, would the First Bank Stock Corporation fix the total credit line which might be extended to an individual by all the banks in its group?

Mr. WAKEFIELD. I think we would. That has not come up, but, I think, we should pass on what we will loan to different borrowers through our banks.

Mr. FORT. There was one question I asked Mr. Decker, but I find I did not ask you.

What is your judgment as to the desirability of uniformity of banking code, State and National?

Mr. WAKEFIELD. I think it would be beneficial.

Mr. FORT. And that code should adhere to the stricter form of banking regulations, rather than the more lax?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. And we would be justified, in your opinion, in such steps as we might take to endeavor to bring the entire banking system of the country up to the highest possible standard of sound banking?

Mr. WAKEFIELD. Yes. I would not want to say, offhand, that the strictest form would be the better form, if that form would appear unreasonable. If it was along national banking lines——

Mr. FORT. One further question in reference to your cross-examination on the basis of your organization's exchange of stock: It would be absolutely true, would it not, if you took simply the asset value—that is, capital, surplus, and undivided profits, divided by the total number of shares outstanding in each bank, and use that as the basis of your stock exchange, you would be putting too high a price in some cases, and too low a price in others, because of the total disregard of the intangible, such as good will?

Mr. WAKEFIELD. That is true.

Mr. FORT. So, it is not water to include the good-will item, but it is necessary in order to preserve an equitable adjustment of value as between different banks?

Mr. WAKEFIELD. Yes, sir.

Mr. FORT. Suppose your First Bank Stock Corporation was organized on a nopar stock basis, the same purpose would be reached by simply fixing the taking over of the other banks on the basis of so many shares of nopar stock?

Mr. WAKEFIELD. That is true.

Mr. FORT. That is a modern method of capitalization in a great many instances, is it not?

Mr. WAKEFIELD. Yes, sir.

Mr. BUSBY. I want to remind you, apropos of my cross-examination, that you are making the statements and all you are getting from the witness is "yes" or "no." When you put words in his mouth he can answer "yes" or "no." But when I asked some questions that required him to use the words he could not answer for me.

Mr. FORT. Well, you might call me the counsel for the defense. [Laughter.]

On the distinction Mr. Wingo was asking you about between chain and group banking, it has seemed to me that the word "chain" implies interlocking links and that that means ownership by one bank itself of another bank, or ownership where the stock is locked in loans in one bank to own another bank, rather than any system of ownership where either an individual or a group of individuals or a corporation, as in your case, owns the stock, which we would call group banking.

Is that the distinction you have in mind?

Mr. WAKEFIELD. That is the old common conception of group banking, but I think there are some people who control banks along slightly different lines that we call group banks.

Mr. FORT. Namely, when the stock is owned by one bank in another bank, or stock is owned by a group of individuals in more than one bank, they borrowing from one to buy the other.

In your judgment is that type of chain banking either sound or defensible?

Mr. WAKEFIELD. I think it is very undesirable.

Mr. FORT. That is my own idea.

Mr. FENN. The committee will stand adjourned until next Tuesday.

(Whereupon, at 4.25 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Tuesday, April 22, 1930.)