

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**

APRIL 29 AND 30, 1930

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, APRIL 29, 1930

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

The committee met in the committee room, Capitol, at 11.10 o'clock a. m., Hon. James G. Strong presiding.

Mr. STRONG. The committee will come to order.

Mr. OTTLEY, you are to address us this morning, and you will proceed, please. We are very glad to have you here.

Mr. BRAND. This is the day we agreed that Mr. Ottley was to be here.

Mr. STRONG. Just state your name and whom you represent.

STATEMENT OF JOHN K. OTTLEY, PRESIDENT FIRST NATIONAL BANK OF ATLANTA, GA., AND PRESIDENT FIRST NATIONAL ASSOCIATES OF ATLANTA

Mr. OTTLEY. I am president of the First National Bank of Atlanta and president of the First National Associates of Atlanta, a corporation organized under the laws of Georgia.

Before proceeding with the information called for in the questionnaire addressed to me by your chairman, I should like, with the permission of the committee, to make a few general observations with respect to the banking situation in our part of the country. The First National Bank of Atlanta was chartered in 1865 and is the oldest and largest national bank in the sixth Federal reserve district. Its aggregate resources exceed \$108,000,000. It has ten branches in operation in the city of Atlanta. Within the area of its operations the First National Bank offers all of the modern facilities of banking to every type of customer.

There is in the sixth Federal reserve district, of which Atlanta is the Federal reserve city, a great diversity of industry and business. In raw materials there is produced lumber, iron ore, coal, phosphates, and oil. We have cotton and manufacture of cotton, rice, livestock, dairying, and the commercial production of all of the cane sugar made in the United States. We have one of the greatest fruit-producing territories in the world. In addition to cotton factories, there are steel and iron mills and factories of national importance. Hydroelectric power is highly developed. In this district there are five seaport cities with great volumes of ocean shipping. The sixth Federal reserve district is economically sound and the diversity of its business enterprise offers an ample opportunity for a sound banking system to prosper.

How does it come to pass that with this great potential economic strength the sixth Federal reserve district has witnessed so many bank failures during the past decade and still witnesses them? The population of our small cities and of the farming rural sections have suffered loss after loss as depositors, borrowers, and stockholders of local community banks. Your committee already has the statistical information with respect to these failures and I shall not attempt to repeat these figures.

Public confidence in the small independent bank has been greatly shaken in our section of the country. The system of banking with which the rural population had to deal has failed. This has added greatly to the burden of the farmer and the small business man. When strongly adverse economic conditions strike a local community in which there is a bank which serves that community alone it is next to impossible to prevent such a bank from failing. Successive periods of drought, the activity of a fruit pest or of a plant disease, the adverse conditions of the market for a local product—such causes as these have brought about the downfall of hundreds of small banks in our district. Such banks by virtue of their limited size and influence can not possibly secure the type of management which modern banking demands, but even with good management the little local bank under such conditions as I have described would be virtually helpless. As has been said by members of this committee at these hearings, many of these banks failed because the community in which they operated failed. The bank had to attempt to the last to offer what facilities it possessed.

What is really the matter with the small bank? The answer lies in the narrow base upon which it rests. It can not avail itself of the diversity of business which is essential to banking strength. Without such diversification it can only be a fair-weather bank. If, therefore, we could throw behind every local bank in the Sixth Federal reserve district the strength and stability which come from the diversified business of the entire district, bank failures from local causes would cease. The local bank itself can not extend its business to tap the great variety of enterprises embraced in our area. That contact it can gain by becoming a part of a group system of banks or a branch of a large parent bank.

First National Associates of Atlanta have begun under the group system to undertake to stabilize banking conditions in the Atlanta trade area—using the term which has been discussed before your committee. It has brought together 8 banks, 3 in Atlanta—including the first National Bank—1 in Augusta, 1 in Columbus, 1 in Macon, 1 in Rome, and 1 in Savannah. The parent bank and the 10 branches in Atlanta bring the total banking offices of the group to 18. The smallest bank in this group has a capital and surplus of \$362,000. These banks are limited entirely to the State of Georgia, but by reason of the business spread of the First National Bank of Atlanta they now have behind them a large share of the diversification of business in the sixth district. The extension of the First National group into other parts of the Atlanta district would strengthen the group from this point of view.

I do not argue that the banking conditions in the agricultural districts which are served by small local banks, which have been so impressively brought to your attention by the Comptroller of the Cur-

rency, can be met and remedied by group banking. Group banking under the form in which we have it can not afford to attempt to operate a local bank unless there is in that community a sufficient amount and variety of banking business to make the enterprise profitable as a business investment. The local bank under the group system remains an independent banking corporation. It is not flexible in its technical organization or in its responsibilities under the banking laws. It must operate, if at all, as a full-fledged bank with capital, surplus, reserves, loans, investments, and deposits. Group banking, to be successful, must therefore confine its membership to the banks with resources, I should say, above \$1,000,000.

It seems to me that branch banking alone can meet the needs of the small communities, either straight-out branch banking from large banks in cities like Atlanta, or a combination of group banking and branch banking.

Branch banking is in operation to some extent in all of the States in the sixth Federal reserve district except Florida. So far as I know there is no public prejudice against it. In the State of Georgia we have had State-wide branch banking for a number of years. There is a branch in Atlanta of a national bank in Savannah which bank also has several other branches in different parts of that State. The McFadden Act has restricted member banks to branches within city limits where branches are permitted at all. If in view of the present situation national banks in Atlanta were permitted, for example, with the approval of the Comptroller of the Currency, to put branches into the small towns in the agricultural sections the First National Bank of Atlanta could in my opinion effectively establish a safe and sound system of banking for those people.

There is a great difference between a branch of a bank and an independent bank. The size of a branch and the extent of its operations can easily be adapted to the banking needs of a particular community. There are outlying communities where a small branch could be placed and kept open two or three days a week as a convenience in the depositing of money, paying of checks, deposits of valuables for safe keeping, perhaps making a few small loans and making available other banking facilities. The cost of the operation of such a branch would be very small. In other somewhat larger communities such a branch could be kept open daily and would vary in size and personnel according to the available local banking business. Every one of such branches would tap the mass business operations embraced in the diversified activities of the entire area covered by the parent bank. Local depression in agriculture in one section would be offset by favorable business in other lines.

The branch itself would not necessarily require a diversification of local business because it would not rest for its support upon that business. This is the real difference between a branch and an independent unit bank. A branch, wherever situated, of the First National Bank of Atlanta, would be an office of that bank and all of the strength of the capital structure and of the great diversification of banking business of the First National Bank would be in that branch just as much as in the head office of the bank. If such a branch be situated in a peach-growing section where the principal banking business rests upon that industry, two or three successive years of failure to make profits on the peach crop might cause the

failure of independent local banks, but any losses which might be made in the branch would be absorbed by the entire branch banking system, which would have many avenues of profitable business besides that dependent upon the growing of peaches.

In our own case the organization of the First National Associates as a group banking plan, was due to the lack of a national law permitting the extension of branch banking within the Federal reserve system outside of Atlanta. I myself have always been in favor of branch banking by national banks and my associates and myself in the First National Bank of Atlanta would have preferred to engage directly in branch banking rather than to resort to the more cumbersome method of group banking as a means of furnishing adequate banking facilities to our territory. The First National Bank has for eight years been engaged in branch banking within the city of Atlanta and has developed sufficient experience to extend its branches beyond city limits into the trade area which it serves. In establishing a group banking system we pursued the only means available under the law to make an approach to the advantages and benefits of a wider operation of branch banking. The question may be raised whether, since branch banking beyond city limits is prohibited by the McFadden Act, the First National Bank is not doing indirectly what is unlawful to be done directly. My answer is that the law permits us to do exactly what we are doing. It is done under the sanction of the law.

I do not regard group banking in its present form as the equal of branch banking either in its ability to meet the needs of local communities with dispatch and precision, in the flexibility and simplicity of its organization or in the economy of its operation. On the other hand I regard group banking as undoubtedly superior to that of the independent local unit bank with its isolation from metropolitan business contacts and its complete dependence upon the business of the community in which it is situated.

In view of the fact that group banking, such as the First National Associates has embarked upon, is designed to respond to an economic demand in our civilization—a demand for greater strength and stability in banking and a more even distribution of banking facilities to the various types of our population—may I take the liberty to say that this committee should make toward it a sympathetic approach. If the committee should decide that group banking ought to be permitted to continue in operation under Federal supervision and control, certain restrictions and safeguards should be thrown around it for the general protection of the public. The first National Associates of Atlanta would welcome any reasonable provisions to this end. If Congress in its wisdom should see fit to permit branch banking by national banks into wider areas than is at present possible under the law it would seem that those corporations engaged in group banking should be permitted gradually to adapt their organizations to branch banking rather than be forced suddenly to embrace it. The First National Bank of Atlanta would immediately avail itself of the opportunity to substitute branch banking for group banking. On the other hand, I realize that our situation is different from those other communities in which group banking is operating in the entire absence of branch banking.

I shall now proceed to give more specifically the information called for in the letter sent out by your chairman.

I am submitting, marked "Exhibit A," the incorporation papers including all by-laws of First National Associates of Atlanta; a list of its directors showing the business connection of each, marked "Exhibit B"; and a list of the banks in First National Associates Group showing the date when organized, name of bank, city in which located, capital structure, deposits and total resources, marked "Exhibit C."

The First National Associates of Atlanta is an affiliated subsidiary of the First National Bank of Atlanta. Its capital stock is entirely owned by the Trust Co. of Georgia, the shares of which in turn are owned by the shareholders of the First National Bank.

The senior executive officers of the bank, the trust company, and of the Associates are identical, and the directorate of the bank includes all of the directors of the trust company and of the associates. In addition, the presidents of each bank in which the associates are controlling shareholders are members of the board of the associates.

The Associates owns the controlling stock of four national banks; one State bank, which is a member of the Federal reserve system, a real estate loan bank, and of a company for the underwriting and distribution of investment securities.

The Associates owns from 50.16 per cent to 78.28 per cent of the capital stock of the four national banks and one State bank located in cities other than Atlanta. These banks are located in five cities in all sections of the State of Georgia. The shares of these banks were acquired by purchase for cash after negotiations with the management of each bank and the purchase consummated after an examination and appraisal of the assets in each instance.

The First National Bank of Atlanta actively cooperates with each of these banks in the management of its affairs. Coordination of activities and cooperation in the management are effected by one officer of the parent bank being on the board of each affiliate bank and by one vice president being assigned exclusively as a contact with the local management of each affiliate bank. As an officer of the First National Bank, of the Associates, and of the affiliate bank, this official supervises operating methods and obtains for each affiliate the aid of any department of the parent organization. Each affiliate bank is audited by the audit department of the First National Bank. In addition, each affiliate has at its disposal constantly the facilities of the credit and statistical department of the parent bank. Our first act was to set up in each affiliate adequate credit records, which, as a unit bank, would have been very difficult to accomplish. Each affiliate furnishes daily reports, including its daily statement, new loans, accounts opened and closed, and comparative figures of deposits, loans, investments, and earnings. These reports are inspected daily by the operating and credit divisions of the parent bank. In short, each affiliate receives the complete co-operation and supervision of a large metropolitan bank staff which would have been impossible had those banks continued as independent institutions. That such a system is effective is best evidenced by the fact that credit losses have been smaller, operations more economical, and earnings increased in each instance since the affiliation was made.

The scope of banking service in each of the communities where these affiliate banks are located has been materially widened. Credit lines have, in many instances, been granted by the parent bank to worthy customers of the affiliate banks whose needs were greater than local banks could either legally or comfortably meet. Facilities for the investment of funds in securities, the administration of trusts, the obtaining of mortgage loans, etc., have been made available through the affiliate banks where formerly no such services were offered to the public.

The First National group has, up to this time, confined its affiliations to the State of Georgia, but it is my opinion that the natural development of group or branch banking will justify our consideration of extending into the larger trade territory served by the city of Atlanta. While it is difficult to define this territory exactly, it may be roughly outlined as including the sixth Federal reserve district in addition to portions of North and South Carolina. Atlanta now enjoys trade relations actively in that area in almost every line of business. Such a development will require, doubtless, a change in the form of holding companies which we now use—that is, the subsidiary holding company—to a parent holding company, owning the stocks of each bank or company in the group, and effecting further affiliations by an exchange of shares, rather than by cash purchases.

(The exhibits submitted by Mr. Ottley are reproduced below.)

EXHIBIT A

GEORGIA,
Fulton County.

To the Superior Court of said County:

The petition of J. E. Hickey, C. T. Hopkins, jr., and T. T. Flagler, all of said State and county, respectfully shows:

1. That they desire for themselves, their associates, successors and assigns, to be incorporated and made a body corporate under the name and style of Trusco Investment Co.

2. That the principal office of said corporation is to be located in the city of Atlanta and State of Georgia, but with the right, power, and authority to establish branch offices for the transaction of its business in any other place within the State of Georgia, and in any other States, territories, or dependencies of the United States of America.

3. The general object of the incorporation is pecuniary profit to its stockholders.

4. The nature of the business and objects and purposes proposed to be transacted, promoted, and carried on are as follows:

(a) To purchase or otherwise acquire, hold, own, sell, deal in, and otherwise dispose of stocks, bonds, notes, mortgages and other evidences of indebtedness, whether secured or not secured, and whether issued by corporations or individuals, as well as any other personal property of any kind and character which it desires to own or deal in.

(b) To do a general commission and buying and selling agent's business, and acting for others to purchase, or otherwise acquire, sell, deal in or otherwise dispose of, any of the securities hereinbefore enumerated, or any other property, either real or personal, and to negotiate and procure loans, secured and unsecured, and to receive commissions or other compensation for its services as such agent.

(c) To purchase, or otherwise acquire, hold, own, sell, deal in or otherwise dispose of, any real property, leaseholds thereon, or other right, title or interest therein in any State, territory, or dependency of the United States or in any foreign country or place, with the right to improve, develop, subdivide or otherwise deal with such real estate as in the opinion of said corporation may be beneficial or profitable to it.

(d) To act as agent, either general or special, and to receive compensation for its services as such, for life, fire, casualty, liability, burglary, tornado, fidelity, and any and all other kinds of insurance companies.

(e) To guarantee or indorse bonds, notes or other evidences of indebtedness and other obligations of any corporation or individual. To lend its own money upon such terms and at such rates of interest as it may desire and either with or without security.

5. Petitioners desire that said corporation shall have the right, power, and authority to borrow money, to issue bonds, notes, or other evidences of indebtedness, and to secure the same or any of them, by trust deed or mortgage or pledge of any or all of the real or personal property which may be owned by the corporation, and generally to use any or all of its property, both real and personal, as a basis of credit for the raising of money to be used in connection with its operations and the prosecution of its business.

6. Petitioners further desire that said corporation shall have the right and power to do each and every thing which will be necessary, suitable, convenient, or proper for the accomplishment of any of the purposes, or the attainment of any one or all of the objects hereinbefore enumerated or incidental to the powers herein named or which shall at any time appear conducive to or expedient for the protection, profit, or benefit of the corporation, either as holder of or as interested in any property or otherwise and generally to have all of the rights, powers, and privileges now or hereafter conferred by the laws of the State of Georgia upon like corporations, including the right to sue and be sued, to have and use a common seal, and all other rights enjoyed by such corporations.

7. The capital stock of said corporation is to be \$50,000, divided into 500 shares of the par value of \$100 each, all of which has been paid in; with the right, nevertheless, in said corporation at any time, upon the vote of the holders of a majority of all of the stock at the time outstanding, and from time to time as may be deemed expedient and best, to increase its capital stock, provided that the maximum capital stock which it may ultimately have outstanding shall not exceed the sum of \$1,000,000.

8. It is desired that said corporation shall likewise have the right, power, and authority at any time, upon the vote of the holders of a majority of its capital stock then outstanding, to reduce its capital stock from time to time as may be deemed expedient and best, to such sum as may be determined upon, provided that the minimum capital stock which said corporation shall be entitled to have shall not be less at any time than \$25,000.

9. It is also desired that said corporation shall have the right, power, and authority at any time, upon the vote of the holders of a majority of the capital stock at the time outstanding, to amend its charter, either in form or in substance; and also the right, power, and authority, upon a like vote, at any time to wind up its business, dispose of all of its assets of every kind, and nature whatsoever and distribute the same among its shareholders as they may be entitled to the same and to cease to do business, whether said corporation be then or thereafter dissolved under the provisions of the laws of Georgia or not.

Wherefore your petitioners pray that they, their associates, successors, and assigns, be incorporated and made a body corporate under the name and style of Trusco Investment Co. for all the purposes and objects, and with all the rights, powers, and privileges hereinbefore set out, together with all other rights, powers, and privileges usually, enjoyed by like corporations under the laws of the State of Georgia, and that it be incorporated for a period of 20 years, with the right of renewal from time to time as may be then allowable under the laws of the State of Georgia.

ANDERSON, ROUNDTREE & CRENSHAW,
Attorneys for petitioners.

Filed in office, this the 23d day of June, 1922.

ARNOLD BROYLES, *Clerk.*

BY-LAWS OF THE TRUSCO INVESTMENT CO.

ARTICLE I. OFFICES

SECTION 1. The principal office of the corporation shall be in the county of Fulton, State of Georgia.

The corporation may also have offices in such other places as the board of directors may from time to time appoint and the business of the corporation require.

ARTICLE II. SEAL

SECTION 1. The corporate seal shall be circular and shall have thereon, around the edge of the circle, the name of the corporation and the words "Fulton County", and in the center of the circle the word "Seal."

ARTICLE III. STOCKHOLDERS

SECTION 1. *Annual meeting.*—A meeting of the stockholders shall be held annually at the office of the corporation in the county of Fulton, State of Georgia, on the second Wednesday in April in each year, if not a legal holiday, and if a legal holiday, then on the next successive business day, at 4 o'clock in the afternoon, for the purpose of electing a board of five directors (unless the number be changed, as hereinafter provided for) to serve one year and until their successors are elected and qualified, and for the transaction of any other business authorized or required to be transacted by the stockholders. Notice of the annual meeting shall be mailed at least 10 days prior thereto to each registered stockholder entitled to vote at his address as the same appears on the books of the corporation.

SEC. 2. *Special meetings.*—Special meetings of the stockholders for any purpose or purposes shall be held at the office of the corporation in the county of Fulton, State of Georgia, whenever called by the president, the board of directors, or by stockholders holding together at least one-fourth of the capital stock of the corporation then issued and outstanding. Notice of each special meeting, stating the time, place and in general terms the purpose or purposes thereof shall be mailed at least five days prior to the meeting to each registered stockholder entitled to vote at his address as the same appears on the books of the corporation; but in the event any stockholder shall reside at such distance that a letter mailed would not, in due course, reach him so as to enable him to attend at the date fixed for such meetings, such stockholder may be notified by telegram, and the sending to him of a telegram five days before the date of the meeting, addressed to his last address as appears on the books of the corporation, shall be a sufficient notice of said meeting.

SEC. 3. *Quorum.*—At any meeting of the stockholders, the holder or holders of a majority of the stock of the corporation issued and outstanding, present in person or represented by proxy, shall constitute a quorum for all purposes, including the election of directors, except where otherwise provided by statute.

SEC. 4. *Order of business.*—The order of business of all meetings of stockholders shall be as follows:

(a) Roll call; a quorum being present (b) reading of minutes of preceding meeting and action thereon; (c) reports of officers; (d) reports of committees; (e) Election of directors; (f) unfinished business; (g) new business.

SEC. 5. *Adjournments.*—If at any annual or special meeting a quorum shall fail to attend in person or by proxy, a majority in interest of the stockholders having voting powers attending in person or by proxy at the time and place of said meeting, may adjourn the meeting from time to time without further notice until a quorum shall attend, and thereupon any business may be transacted which might have been transacted at the meeting as originally called had the same been then held.

SEC. 6. *Organization.*—The president, and in his absence the vice president, and in the absence of the president and vice president, a chairman appointed by the stockholders present and entitled to vote, shall call meetings of the stockholders to order and shall act as chairman thereof. The secretary of the company shall act as secretary at all meetings of the stockholders when present, and in his absence the presiding officer may appoint any person to act as secretary.

SEC. 7. *Voting.*—At each meeting of the stockholders every stockholder entitled to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such stockholder or by his duly authorized attorney and delivered to the secretary of the corporation, and he shall be entitled to vote one vote for each share of stock appearing in his name on the books of the corporation, provided 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 10 days next preceding such election. Transfer books of stock may be closed so as to fix the persons entitled to vote the same, by order of the board of directors, not exceeding 30 days preceding any stockholders' meeting. Upon the demand of any stockholder, the vote for directors, or upon any other question before the meeting, shall be by ballot; in the absence of such demand, it may be *viva voce*. All matters or questions before a stockholders' meeting shall be decided by a vote of the majority of those present, except where otherwise required by the charter.

ARTICLE IV. DIRECTORS

SEC. 1. *Number.*—The business and affairs of the corporation shall be managed and controlled by a board of directors, five in number, which number may be altered from time to time. The directors shall be elected by the stockholders

entitled to vote at the annual meeting of the corporation, and each director shall be elected to serve until the next annual stockholders' meeting and until his successor shall be elected and qualified.

In the event it is desired that the number of the directors be increased at any time other than the annual meeting, the additional directors may be elected by the board of directors to serve until the next annual meeting or until their successors are elected and qualify.

Sec. 2. *Vacancies.*—In case of any vacancy among the directors through death, resignation, disqualification, removal or other cause, the board of directors may elect a successor to hold office until the next annual election and until the election and qualification of his successor. If the number of directors be reduced below the number necessary to constitute a quorum, the remaining directors, though less than a quorum, may fill the vacancies. The stockholders may fill any vacancies not promptly filled by the directors.

Sec. 3. *Place of meeting.*—The directors shall hold their regular meetings and keep the books of the corporation at the principal office of the corporation in the County of Fulton, State of Georgia, as the same may be hereafter located, but may hold meetings at such other place or places within the State of Georgia, or outside of the State of Georgia, as the board may from time to time determine.

Sec. 4. *Annual meeting of the board.*—After each annual meeting of the stockholders, the newly elected directors may meet for the purpose of organizing, the election of officers, and the transaction of other business at such place and time as shall be fixed by the stockholders at the annual meeting or by the by-laws of the company, and if a majority of the directors be present at such place and time, no prior notice of such meeting shall be required to be given to the directors. The place and time of such meeting may also be fixed by written consent of the directors.

Sec. 5. *Regular meetings.*—Regular meetings of the board of directors shall be held at the office of the corporation in Fulton County, State of Georgia, until otherwise ordered by the board, and at such times and places as the board of directors shall from time to time appoint, of which no notice shall be required.

Sec. 6. *Special meetings.*—Special meetings of the board shall be held whenever called by direction of the president or the vice president or of a majority of the directors for the time being in office. The secretary, or some other officer or director of the corporation shall give notice to each director of each special meeting, by mailing the same at least two days before the meeting or by telephoning or telegraphing the same not later than the day before the meeting. If every director shall be present at any meeting, any business may be transacted without previous notice.

Sec. 7. *Quorum.*—A majority of the directors shall constitute a quorum for the transaction of business, but a majority of those present at the time and place of any regular or special meeting, if there be less than a quorum, may adjourn the same from time to time without notice, until a quorum be had. The act of a majority of directors present at any meeting at which there is a quorum shall be the act of the Board of Directors.

Sec. 8. *Compensation of directors.*—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.

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

Sec. 9. *Order of business.*—The Board of Directors may from time to time determine the order of business at their meetings. Until changed, the order of business at such meetings is as follows:

(a) Roll call, a quorum being present; (b) reading of minutes of preceding meeting and action thereon; (c) report of officers; (d) report of committees; (e) unfinished business; (f) miscellaneous business; (g) new business.

Sec. 10. *Chairman.*—At all meetings of the board of directors the president, or, in his absence, the vice president, or, in his absence, a chairman chosen by the directors, shall preside.

Sec. 11. *Committees.*—From time to time the board may appoint any committee or committees for any purpose or purposes to the extent lawful which will have such powers as shall be specified in the resolution or resolutions of appointment.

ARTICLE V. OFFICERS

SECTION 1. *Executive officers.*—The executive officers of the corporation shall be a president, a vice president, a treasurer, and a secretary, any two of which offices may be held by the same person, except that the same person may not be president and vice president; all of whom shall be elected annually by the board.

SEC. 2. *Subordinate officers.*—The board may appoint one or more assistant treasurers and one or more assistant secretaries, and such other officers and employees as it may deem necessary, who shall have such authority and perform such duties as from time to time may be prescribed by the board.

SEC. 3. *Tenure of officers—Removal.*—All officers and agents shall be subject to removal at any time by affirmative vote of a majority of the whole board. The board may delegate powers of removal of subordinate officers and agents to any officer of the company.

SEC. 4. *The president.*—The president shall be a chief executive officer of the corporation, with all of the powers usually exercised by the chief executive officer of like corporations; he shall sign all deeds, conveyances, transfers, assignments of personal and real property, and other instruments in writing which may be executed in behalf and in the name of the corporation; he shall have general charge of the business of the corporation; and shall do and perform such other duties as from time to time may be assigned to him by the board.

SEC. 5. *The vice president.*—The vice president shall have such powers and perform such duties as may be assigned to him by the board. In case of the absence or disability of the president, the duties of his office shall be performed by the vice president.

SEC. 6. *The treasurer.*—The treasurer shall have the custody of all of the funds and securities of the corporation which may come into his hands; he shall sign all checks or drafts drawn against the funds belonging to the corporation; he shall sign all notes, obligations, and other evidences of indebtedness, and shall perform all duties incident to the position of treasurer, subject to the control of the board. He shall do and perform such other duties as may from time to time be assigned to him by the board. If required by the board, he shall give a bond for the faithful discharge of his duties in such sum as the board may require.

SEC. 7. *The secretary.*—The secretary shall keep the minutes of all proceedings of the board and the minutes of all meetings of the stockholders in books provided for that purpose; he shall attend to the giving and serving of all notices for the corporation; he shall have charge of the certificate books and such other books and papers as the board may direct; he shall attest all instruments in writing required to be under seal, and have the custody of the seal; and he shall in general perform all the duties incident to the office of secretary, subject to the control of the board; he shall also perform such other duties as may be assigned to him by the board.

SEC. 8. *Vacancies.*—All vacancies among the officers shall be filled by the board of directors.

ARTICLE VI. CAPITAL STOCK

SECTION 1. *Form and execution of certificates.*—The certificates of shares of the capital stock of the corporation shall be in such form as shall be approved by the board. The certificates shall be signed by the president or the vice president and the secretary or an assistant secretary. Each certificate of stock shall certify the number of shares owned by the stockholder in the corporation.

SEC. 2. *Certificates to be entered.*—All certificates shall be consecutively numbered and the names of the owners, the number of shares, and the date of issue shall be entered in the books of the corporation.

SEC. 3. *Old certificates to be canceled.*—Except in cases of lost or destroyed certificates, and in that case after receipt by the corporation of satisfactory indemnity, no new certificate shall be issued until the former certificate for the shares represented thereby shall have been surrendered and canceled.

SEC. 4. *Transfer of shares.*—Shares shall be transferred only on the books of the corporation by the holder thereof in person or by his attorney, upon the surrender and cancellation of certificates for a like number of shares.

SEC. 5. *Regulations.*—The board may make such rules and regulations as it may deem expedient concerning the issue, transfer, and registration of stock.

SEC. 6. *Transfer agent and registrar.*—The board may appoint a transfer agent and registrar of transfers, and may require all stock certificates to bear the signature of either or both.

SEC. 7. *Closing of transfer books.*—The transfer books of stock entitled to vote may be closed by order of the board of directors not exceeding 30 days next preceding any stockholders' meeting and may also be closed for the payment of dividends during such period as from time to time may be fixed by the board, and during such period no stock shall be transferred on such books.

ARTICLE VII. DIVIDENDS AND WORKING CAPITAL

SECTION 1. *Board to declare dividends.*—The board, in its discretion, from time to time may declare dividends upon the capital stock from the surplus or net profits of the corporation and may fix and change the dates for the declaration and payment of dividends.

SEC. 2. *Surplus.*—The board of directors may fix a sum which may be set aside or reserved over and above the capital stock paid in as a surplus and working capital for the corporation, and from time to time they may increase, diminish, and vary the same in their absolute judgment and discretion.

ARTICLE VIII. FISCAL YEAR

SECTION 1. *Fiscal year.*—The fiscal year of the corporation shall be the calendar year or otherwise as the directors may determine.

ARTICLE IX. NOTICE AND WAIVER OF NOTICE

SECTION 1. *Notice.*—Any notice required to be given under these by-laws may be given by mailing the same, addressed to the person entitled thereto, or by telephoning or telegraphing the same, as hereinbefore provided for in these by-laws, at his address as shown on the books of the corporation, and such notice shall be deemed to be given at the time of such mailing, telephoning, or telegraphing.

SEC. 2. *Waiver of notice.*—Any stockholder, director, or officer may waive any notice required to be given by these by-laws.

ARTICLE X. AMENDMENTS

SECTION 1. *By-laws subject to amendment by stockholders.*—All by-laws shall be subject to amendment, alteration, or repeal by the stockholders entitled to vote at any annual meeting and at any special meeting called for that purpose.

August 16, 1922.

At a special meeting of the stockholders of the Trusco Investment Co. held May 14, 1929, the following amendments to the by-laws were made:

Further resolved, That article 4 of section 1 of the by-laws be amended by changing the number of directors called for in said section from 5 to 12.

Further resolved, That article 10, section 1, be amended so that as amended the same shall read as follows:

"SECTION 1. *By-laws subject to amendment by directors.*—All by-laws shall be subject to amendment, alteration, or repeal at any regular directors' meeting, or at any special directors' meeting called for that purpose."

In a special meeting of directors of Trusco Investment Co. held May 14, 1929, the following amendments to the by-laws were made:

Resolved, That Article V, section 1, of the by-laws be amended so that as amended it shall provide as follows:

"SECTION 1. *Executive officers.*—The executive officers of the corporation shall be a president, four vice-presidents, a treasurer, and a secretary, any two of which offices may be held by the same person, except that the same person may not be president and vice president; all of whom shall be elected annually by the board."

Further resolved, That Article V, section 5, of the by-laws be amended so that as amended the same shall read as follows:

"The vice presidents shall have such powers and perform such duties as may be assigned to them by the board, or the president. In case of the absence or disability of the president his duties shall be performed by any available vice president."

GEORGIA,

Fulton County.

To the Superior Court of said county:

The petition of Trusco Investment Co. respectfully shows to the court:

1. Your petitioner was incorporated by an order of this court granted on the 22d day of July, 1922, and thereafter duly organized in accordance with the pro-

visions of the laws of this State, and is now in the active conduct of its business in accordance with the provisions of its charter.

2. Your petitioner desires to change its name from Trusco Investment Co. to First National Associates.

3. This change in name has been requested and approved by the unanimous vote of the stockholders of your petitioner at a meeting held on the 20th day of November, 1929, at which the following resolution was unanimously adopted by the stockholders:

Whereas it is deemed advisable and beneficial to change the name of this company from Trusco Investment Co., to First National Associates: Be it therefore

Resolved, That the name of this company be, and is hereby, changed to First National Associates and the officers and attorneys of the company are authorized to make application for an amendment to the charter of the company accomplishing such change of name and take such other steps as may be necessary to carry these resolutions into effect.

4. The action of the stockholders looking toward a change in the name of your petitioner was unanimously ratified, approved, and adopted at a meeting of the directors of your petitioner held on the 20th day of November, 1929.

Wherefore Trusco Investment Co. prays that its charter be amended by changing its name to First National Associates.

_____,
_____,
Attorneys for Petitioner.

IN THE MATTER OF THE APPLICATION OF TRUSCO INVESTMENT CO. TO AMEND ITS
CHARTER BY CHANGING ITS NAME TO FIRST NATIONAL ASSOCIATES

The attached and foregoing petition of the Trusco Investment Co. praying for an amendment of its charter as therein set forth came on for a hearing in due course. It was shown to the court that the petition was published as required by law in the Fulton County daily report on the _____ days of _____, and the _____ days of _____; and it further appears to the court that all other requirements of law for such cases have been fully complied with, and that the subject of said petition comes within the purview and intent of the law: It is therefore

Considered, ordered, and adjudged, That the prayer of said petition be granted and that the charter of Trusco Investment Co. be and the same is hereby amended as requested, and the name of said corporation is hereby changed to First National Associates.

In open court this _____ day of _____, 1929.

_____,
Judge Superior Court, Fulton County, Ga.

EXHIBIT A

BY LAWS OF TRUSCO INVESTMENT CO.

MEETINGS OF STOCKHOLDERS

SECTION 1. There shall be an annual meeting of the stockholders on the fourth Tuesday in January of each year, at 11.30 o'clock a. m., for the purpose of electing directors and transacting any other business that may lawfully come before an annual meeting. A majority of the capital stock at the annual meeting or at any other meeting shall constitute a quorum.

SEC. 2. Stockholders shall have one vote for each share of stock held by them and may vote by written proxy.

ELECTION OF DIRECTORS

SEC. 3. At each annual meeting of the stockholders a board of not more than 26 directors shall be elected and 7 directors shall constitute a quorum for the transaction of business at any meeting lawfully held. The directors so elected shall hold office for one year and until their successors are elected and have qualified. Any vacancy that may occur, either by resignation or otherwise, may be filled by the remaining directors at any regular or at any special meeting called for that purpose on proper notice to each director.

BOARD OF DIRECTORS

SEC. 4. The board of directors shall have full authority to give directions to the policy of the company and as to the general conduct of its business; shall have supervisory authority over all officers; shall elect all officers not otherwise required by law to be elected; shall fill all vacancies that may occur; and shall generally discharge the duties incident to boards of directors of institutions of like character.

MEETINGS OF THE BOARD OF DIRECTORS

SEC. 5. The regular meetings of the board of directors shall be held immediately after the adjournment of the stockholders' annual meeting and thereafter on the second Tuesday in each month of April, July, and October, at 11.30 o'clock a. m.

EXECUTIVE COMMITTEE

SEC. 6. The chairman of the board, after each annual meeting, shall appoint nine members of the board who, with the chairman, the president and such other officers of the company as from time to time shall be called by the committee to act with it, shall constitute the executive committee. The executive committee shall meet on the first Tuesday of each month at 11.30 o'clock a. m.; shall have the full authority of the board when the board has not otherwise directed; and shall keep records of its meetings and actions to be submitted to the board for its approval, and a majority of its members shall be necessary for a quorum. Its chairman shall preside at all its meetings and shall perform such other duties as the committee may direct. Each member shall receive a fee of \$10 for each meeting he attends.

OFFICERS

SEC. 7. The officers of the corporation shall be a chairman of the board, a president, a chairman of the executive committee, an executive vice president, as many vice presidents as the board of directors may determine upon, a secretary, a treasurer (the last two offices may be united in one person) and such other officers as the board of directors may from time to time appoint. Each officer shall hold his position for a term of one year and until his successor is duly elected and qualified, or until his resignation is requested by the board of directors or the executive committee.

DUTIES OF OFFICERS

SEC. 8. The chairman of the board of which he shall be a member, shall preside at all meetings of the stockholders and directors; shall be the chairman and presiding officer of all committees except the executive committee; shall appoint all committees, except that the board of directors at its first meeting held after the adoption of these by-laws shall appoint the executive committee; shall perform all the duties of the president in the event of the latter's absence or disability, and such other duties as may be lawfully required of him by the board of directors or the executive committee.

SEC. 9. The president shall be a member of the board; shall be the chief executive officer of the company; shall have general charge of the business of the company, subject to the lawful control of the board of directors and the executive committee; shall perform all the duties of the chairman of the board in the event of the latter's absence or disability; and he shall perform such other duties as may be required of him by the by-laws, and such as may be lawfully required by the board of directors and the executive committee. The president shall have the right to prescribe the duties of the vice presidents and other officers, except the chairman of the board, when not prescribed by the board of directors or the executive committee.

THE TREASURER

SEC. 10. The treasurer shall have the custody of the funds and securities of the company and shall deposit its money in the name of the company in such bank as the board of directors may designate. He shall render a full and particular statement of his cash accounts as often as called for by the board of directors or the executive committee, showing the condition of the company's affairs. He shall perform such other duties as the board of directors or the executive committee may require. No money shall be drawn from any bank or other deposi-

tory, except on checks signed by the president or vice president and by the treasurer. The treasurer shall not give such bond as the board of directors or the executive committee may require.

THE SECRETARY

Sec. 11. The secretary shall give due notice of all meetings of the stockholders and directors; shall report the proceedings of all meetings in a book of minutes; shall perform all other duties pertaining to his office and such as may be required of him by the board of directors or the executive committee.

STOCK CERTIFICATES

Sec. 12. Certificates of stock shall be signed by the president and countersigned by the secretary and shall be in such form and words as the board of directors may determine. No transfer of stock shall be valid unless entered on the books of the company.

SPECIAL MEETINGS

Sec. 13. Special meetings of the stockholders, the board of directors, and the executive committee may be called at any time by the chairman of the board, or by the president, or, upon written request of any five directors, by the treasurer, on 24 hours' notice; and the chairman of any committee may call it in special session at any time on such notice as he may determine upon. At special meetings lawfully called a quorum shall be authorized to transact any business that could be transacted at a regular meeting.

BY-LAWS

Sec. 14. These by-laws may be changed or amended at any meeting of the directors and shall be subject to revision, modification or repeal by the stockholders at any meeting.

SEAL

Sec. 15. The board of directors shall be authorized to adopt a seal.

Sec. 16. All meetings of the stockholders, directors, and committees shall be held at the company's office.

Sec. 17. When any meeting day provided by these by-laws shall fall on a legal holiday, the meeting for that day shall be held on the first day thereafter that shall not be a legal holiday.

FIRST NATIONAL ASSOCIATES—ATLANTA

A special meeting of the stockholders of the First National Associates was held January 15, 1930, and the following amendments to the by-laws were made at this meeting:

Section 1 of the by-laws was amended to read as follows:

"There shall be an annual meeting of the stockholders on Friday after the second Tuesday of January of each year, at 11 o'clock a. m., for the purpose of electing directors and transacting any other business that may lawfully come before an annual meeting. A majority of the capital stock at the annual meeting or at any other meeting shall constitute a quorum."

Section 5 of the by-laws was amended to read as follows:

"At each annual meeting of the stockholders a board of not less than five directors shall be elected and a majority shall constitute a quorum for the transaction of business at any meeting lawfully held. The directors so elected shall hold office for one year and until their successors are elected and have qualified. Any vacancy that may occur, either by resignation or otherwise, may be filled by the remaining directors at any regular or at any special meeting called for that purpose on proper notice to each director."

Section 5 of the by-laws was amended to read as follows:

"The regular meetings of the board of directors shall be held Friday after the second Tuesday immediately after the adjournment of the stockholders' annual meeting and thereafter on Friday after the second Tuesday in March, June, September, and December at 11 o'clock a. m."

Section 6 of the by-laws was amended to read as follows:

"The chairman of the board, after each annual meeting, shall appoint six members of the board who, with the chairman, the president, and such other

officers of the company as from time to time shall be called by the committee to act with it, shall constitute the executive committee. The executive committee shall meet on Friday after the second Tuesday of February, April, May, July, August, October, and November at 11 o'clock a. m.; shall have the full authority of the board when the board has not otherwise directed; and shall keep records of its meetings and actions to be submitted to the board for its approval, and a majority of its members shall be necessary for a quorum. Its chairman shall preside at all its meetings and shall perform such other duties as the committee may direct. Each member shall receive a fee of \$10 for each meeting he attends."

At a meeting of the board of directors of the First National Associates held March 11, 1930, the following amendments to the by-laws were made:

Section 5 of the by-laws was amended to read as follows:

"Sec. 5. The regular meetings of the board of directors shall be held immediately after the adjournment of the stockholders' annual meeting and thereafter on the second Tuesday in each month at 5.20 o'clock p. m., or as soon thereafter as the meeting of the board of directors of the First National Co. held on that day shall adjourn.

Section 6 of the by-laws was amended to read as follows:

"Sec. 6. The chairman of the board after each annual meeting shall appoint six members of the board, who, with the chairman, the president, and such other officers of the company as from time to time shall be called by the committee to act with it, shall constitute the executive committee. The executive committee shall meet when called by the chairman of the committee, the chairman of the board or the president shall have the full authority of the board when the board has not otherwise directed, and shall keep records of its meetings and actions to be submitted to the board for its approval, and a majority of its members shall be necessary for a quorum. Its chairman shall preside at all its meetings and shall perform such other duties as the committee may direct."

EXHIBIT B

DIRECTORS OF FIRST NATIONAL ASSOCIATES

Lee Ashcraft, president Ashcraft-Wilkinson Co., Atlanta.
 James L. Dickey, president Dickey-Mangham Co., Atlanta.
 Harry L. English, president Chattahoochee Brick Co., Atlanta.
 Thomas K. Glenn, chairman Board First National Bank of Atlanta.
 J. N. Goddard, vice president and general manager Conklin Tin Plate & Metal Co., Atlanta.
 J. H. Nunnally, president the Nunnally Co., Atlanta.
 Ben S. Read, president Southern Bell Telephone & Telegraph Co., Atlanta.
 C. A. Wickersham, president Atlanta & West Point Railway, Atlanta.
 David Woodward, president Woodward Investment Co., Atlanta.
 J. S. Floyd, president Interstate Investment Co., Atlanta.
 J. P. Houlihan, president Liberty Bank & Trust Co., Savannah, Ga.
 John K. Ottley, president First National Bank of Atlanta.
 Robert F. Maddox, chairman executive committee First National Bank of Atlanta.
 James D. Robinson, executive vice-president First National Bank of Atlanta.
 Robert Strickland, jr., vice president First National Bank of Atlanta.
 H. Warner Martin, vice president First National Bank of Atlanta.
 R. Clyde Williams, vice president First National Bank of Atlanta.
 A. E. Thornton, attorney First National Bank of Atlanta.
 M. R. Wilkinson, chairman of board Ashcraft-Wilkinson Co., Atlanta.
 R. W. Woodruff, president Coca-Cola Co., Atlanta.
 J. B. Campbell, chairman of board Campbell Coal Co., Atlanta.
 E. A. Stubbs, vice president First National Bank of Atlanta.
 E. Woodruff, capitalist, Atlanta.
 S. C. Dobbs, capitalist, Atlanta.
 Thomas P. Hinman, dean Atlanta Southern Dental College, Atlanta.
 E. H. Inman, capitalist, Atlanta.
 J. C. Payne, Payne & Jones, attorneys, Atlanta.
 Edward C. Peters, president Peters Land Co., Atlanta.
 C. E. Allen, president Continental Trust Co., Macon, Ga.
 Geo. F. Nixon, president First National Bank, Rome, Ga.
 P. E. May, president National Exchange Bank, Augusta, Ga.
 T. S. Fleming, president Fourth National Bank, Columbus, Ga.

EXHIBIT C

Char- ter No.	Date or- gan- ized	First national group			Exhibit J		
		Name	Location	Capital	Surplus and undivided profits	Deposits	Total re- sources
1559 None.	1865 1891	First National Bank... Trust Co. of Georgia; stock held by trust- tees for prorata bene- fit of shareholders of First National Bank.	Atlanta....do.....	\$5,400,000.00 2,000,000.00	\$8,664,351.75 2,946,724.45	\$91,015,331.07 2,286,503.98	\$108,009,181.11 8,236,180.23
None.	1922	First National Asso- ciates; entire capi- tal owned by Trust Co. of Georgia, owns a controlling interest in each of the following banks and corporations.do.....	400,000.00	661,672.26	¹ None.	1,061,672.26
None.	1929	First National Co.do.....	1,000,000.00	1,843,080.59	¹ None.	2,843,080.59
1860	1871	National Ex- change Bank.	Augusta...	400,000.00	197,417.58	2,776,696.96	3,806,768.56
4691	1892	F o u r t h N a - tional Bank.	Columbus.	300,000.00	124,976.26	1,625,427.78	2,074,425.89
None.	1890	C o n t i n e n t a l Trust Co.	Macon.....	350,000.00	228,836.80	4,173,615.80	4,801,522.81
2368	1877	First National Bank.	Rome.....	150,000.00	268,687.71	2,752,793.39	3,373,692.81
None.	1889	Liberty Bank & Trust Co.	Savannah.	600,000.00	154,916.61	4,690,874.42	5,601,154.70
None.	1892	Atlanta Savings Bank.	Atlanta....	100,000.00	261,591.47	58,251.70	669,528.55
				10,700,000.00	13,352,255.48	-----	140,477,207.51

¹ Represents capital structure.

Mr. STRONG. Mr. Ottley, I will say to you that I think you have taken an unusually fair position.

I, of course, do not agree, however, that your group banking has proceeded under sanction of law. The intention of Congress, when it passed the McFadden Act, was to permit national banks to engage in branch banking only in the city where the parent bank was located, but, unfortunately, not knowing that group banking was to come upon us, we used the word "branches"; that they should not have "branches" outside of the city of the parent bank. Of course, when you go around the law and put in groups instead of branches, I do not think you can hardly say that it is done with sanction of law, but, rather, in avoidance of the law.

What I would like to examine you about and to get your opinion on is this: How far do you think it is safe to let the money and credits of the United States be controlled by small groups of men?

Mr. OTTLEY. Mr. Chairman, I want to be perfectly frank in any answer that I give, and I would like to have you just enlarge a little on that question.

Mr. STRONG. The reason that I have opposed branch banking, group banking, and chain banking, is that I have the fear that, through their growth and mergers and amalgamations, eventually we will have all the money and credits of this national controlled by a few groups of men, who, through working together, can dominate and control the country.

It was proposed first by a Comptroller of the Currency that we should let national banks meet the competition of State banks that were allowed branches, by permitting national banks likewise to have branches in States where they permitted the State banks to have them, but to confine them to the city in which the parent bank was located. Now, group banking has been brought into the picture in order to get around that law, and now the Comptroller of the Currency comes before us and recommends that we have branch banking, which he thinks will curb group banking the same as you suggest, but to limit branch banking to trade areas.

The term "trade areas" has been rather indefinitely defined, but the best definition that I think we got was that territory where a money center attracted the trade of the territory, and Governor Young thought that perhaps there might be 37, indicating that the Federal Reserve Board had given some thought to how many areas there should be, although they said they were not ready to submit their conclusions to us.

Now, your suggestion is that you should have branch banking to augment your group banking in order to take care of the little town, because you do not want in your group any bank that is not a money maker, but you want to serve the little town that can not support a money-making bank with a branch, and you say you think that if you were allowed to have extended branch banking, your banks would go into it. How far would you want to extend that, and would not your plan lead to a control of money and credits.

Mr. OTTLEY. I thank you for your explanation.

Mr. STRONG. It is rather long and probably involved, but I hope I got the idea over.

Mr. OTTLEY. I have tried in my statement, in a very limited way, to cover that, but I would be glad to explain further that I think that in the cities that were large enough throughout the country, branch banking would develop within the area. I think the trade area, measured by my yardstick, is the hardest nut that your committee is going to have to crack.

Mr. STRONG. We appreciate that.

Mr. OTTLEY. Now, you will recall that when our Federal reserve system was established and it was decided that we should have 12 Federal reserve districts, there were, I believe, 130 places in the United States that put a dot on their city and took a string and drew a circle and made that city the exact center of that territory.

Now, a very careful study, of course, was given by the organization committee, and it resulted in the establishment of 12 Federal reserve districts, and I think that in the main those 12 Federal reserve districts have to a very large extent established or, you might say, put an emphasis on what might be considered a trade area, and I think that possibly some cities might not cover the entire area, but I think that when it would come to what you have in mind, the concentration of credit, that certainly this country would be safe from any monopoly if the trade areas within Federal reserve districts were adopted.

A great many corporations are beginning, in the operation of their businesses, both in sales organization and in finances, to adopt those trade areas.

Now, in my statement I have cited, as the trade area of Atlanta, the sixth Federal reserve district. When that district was established, we felt in Atlanta that certain portions of the Carolinas should come within the Atlanta area; for instance, the South Carolina line is only 100 miles from Atlanta, and that is a very short distance in a big section of the country as far as business is concerned, with constant communication, many daily trains, air mail, airplanes, paved roads, and so forth, constituting very close communication, and, to be perfectly frank, I think that anything outside of the Federal reserve district should be the exception rather than the rule, and they should be measured very carefully.

Mr. STRONG. Your idea is, then, that the territory covered by each Federal reserve bank could very fairly constitute the trade areas of the nation?

Mr. OTTLEY. I think that should be the basis. I am perfectly frank on that.

Mr. STRONG. How many States are there in your district?

Mr. OTTLEY. Well, we have all of Georgia, all of Alabama, all of Florida, a part of Louisiana, a part of Mississippi, and east Tennessee. So that we have in whole and in part, six States.

Mr. STRONG. Then your idea would be that the Atlanta bank should be allowed to have branch banking to cover those six States? Do you not really relieve, with the advantage you have secured by the building of your group, that if branch banking were allowed and limited to all of the sixth Federal reserve district area, your group would dominate and control the banking of the sixth district in the course of time? I ask you that as a fair proposition.

Mr. OTTLEY. Well, I am too modest a man to agree to that.

Mr. STRONG. Would you set aside your modesty by saying what you think would be the situation 25 years from now?

Mr. OTTLEY. I will be perfectly frank with you. There is another banking institution, with headquarters at Savannah, that has a large branch, as I pointed out, in Atlanta, and that has branches in the State. It is a large and successful institution. Then there are banks in other cities, such as in Birmingham and in New Orleans, and they are large banks, that have the capital and the experience to establish branches if branch banking should be allowed, and I do not think there would be any basis for thinking that either the First National or any other bank would dominate the banks in so large a territory as the sixth Federal reserve district.

In other words, I think that competition is the life of trade, and banking is to-day, I believe, one of the most highly competitive businesses we have and I do not see any reason to suspect or to suppose that there would not be a number of different systems.

Mr. STRONG. But you have destroyed the competitive feature of banking in Atlanta and in the trade area served by your group banks, have you not?

Mr. OTTLEY. I beg your pardon; we have not.

Mr. STRONG. You then think that there would be probably five or six groups dominating in the sixth Federal reserve district?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. Do you not really think that if combinations in banking result in better banking, less overhead expense, and so forth, that eventually those six groups will get together—and I am

taking a term of years—and that they will say that in the interest of reducing overhead costs, better banking and better facilities, it would be a good thing for them to unite their banks through mergers and to have one or perhaps two banks? Would not that naturally occur to them as proper?

Mr. OTTLEY. Mr. Chairman, I am not a prophet or even a son of a prophet, and as to what will happen in 25 years I have not even a remote forecast, but, having been in the banking business all my life, and having had to fight for everything that either I personally or my bank has gotten, and looking at other lines of business, it is my opinion that whenever profits in any line of business are sufficiently great, that that will produce competition.

Mr. STRONG. How long have you been in the banking business?

Mr. OTTLEY. I am ashamed to tell you—all my life.

Mr. STRONG. How long have you been actively engaged in the banking business?

Mr. OTTLEY. Forty years in Atlanta.

Mr. BRAND. Prior to that time, what experience did you have as a banker?

Mr. OTTLEY. I started in the Boatmen's Bank, as a boy, in St. Louis, and cashier in a country bank in Mississippi. Then I came to Atlanta in 1890 with the same bank with which I am now connected.

Mr. STRONG. What position did you first take?

Mr. OTTLEY. I started in what was then the American Trust & Banking Co., as assistant cashier, which was the bottom office in the bank.

Mr. STRONG. And how many banks have you now in your group?

Mr. OTTLEY. Eight.

Mr. STRONG. When did you commence to expand in that group?

Mr. OTTLEY. We started our expansion about eight years ago, with branches in Atlanta and in that vicinity. Within a year ago this last January, we started—well, several years ago we acquired one in Macon—but last year we acquired part of them and the last one about three months ago.

Mr. STRONG. For 32 years, then, you were a unit banker in Atlanta?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. And for eight years you have been a branch banker and a group banker?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. During those eight years, you have gotten together eight group banks with 10 branches, comprising 18 banking institutions?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. That has occurred in eight years?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. I was just going to suggest something that might seem to you a little foolish, namely, what would happen in 25 years. It might be said that I could make predictions ahead for 25 years with some degree of safety from the fact that I do not expect to be here 25 years from now, and that I run no danger of being confronted with the charge that I was a false prophet, but, if you should continue at your present rate for 25 years, at the same ratio, do you not believe you will cover your whole Federal Reserve district?

Mr. OTTLEY. Why, Mr. Chairman—

Mr. STRONG. I am not saying it would not be to the advantage of the district, but I am asking you if you do not think that is reasonable?

Mr. OTTLEY. Suppose that is true. The point I intended to convey and would like to convey now, is just what the First National Bank could do, there is nothing to stop anybody else from doing.

Mr. STRONG. I appreciate that.

Mr. OTTLEY. And there are, at the present time 16 branches, owned and operated by State banks in Georgia, independent of the First National Bank of Atlanta and the national bank in Savannah.

Mr. STRONG. But it is generally admitted that if Congress should permit national banks to override State lines, the State banks will probably go out of business or convert to national banks, because they would only have the right to have branch banking within the State. But the proposition proposed now is to have branch banking within Federal reserve districts and even in your district that would cover six States, which naturally represents a very large handicap on the State banks and I think would cause them either to go out of business or change their charters to national bank charters, so that gradually State banks, with the group banking, and chain banking, will be eliminated and you will have, in the sixth Federal reserve district, and may be one and maybe four or five systems of large branch banks established.

Now my idea is that it might become an advantage to those three or four or five groups to say, "Here; there is no use of our fighting each other for business. Let us merge into one or two groups with a friendly working relation with each other."

Would they not dominate and control the money and credit of that district if that should happen?

Mr. OTTLEY. Mr. Chairman, I would say that there is nothing at the present time to prevent, by law, the consolidation of all of the banks in a given city into one bank, even under the unit system.

Mr. STRONG. That is what I am getting to.

Mr. OTTLEY. I mean now. There is nothing to prevent that at all.

Mr. STRONG. You think that would be desirable?

Mr. OTTLEY. I do not, but I do not think there is anything to prevent it, and I think that it would not be desirable. I believe that bankers in any city, if they were reasonable, intelligent—and certainly if they were intelligent enough to be in the banking business in this competitive day—would realize that that was not good business—not good for the public—and it is my humble thought that what is good for the public in the end is good for the banks, and what is not good for the public in the end is not good for the banks, because they are, to say the least, in my judgment, at least semipublic institutions and I do not know of any city in which that has happened.

I do not believe that in any city of any size that will ever happen because, if you should take 10 banks in a city and consolidate them into 1, overnight there would be another, another, and another.

Mr. STRONG. You do not think it would be a good thing to allow two or three groups to control the money and credit of your district?

Mr. OTTLEY. When you have two, you have competition in banking, but, Mr. Chairman, I should like to say this, that I do not think there is any more likelihood of those groups combining than there would be of unit banks in the several cities in that district combining.

Mr. STRONG. Yes, but they told us when we passed the McFadden bill there would not be any likelihood of anyone wanting to extend branch banking outside of the city where located. They said there was no need of it, and that it was simply wanted within the city within which the parent bank happened to be located, to meet the competition of State banks, but we have found they were mistaken or insincere.

You do not think it would be a good thing for this Federal reserve district—and naturally that would apply to the people and districts all over the country—to have its money and credits controlled by two or three groups in those six States?

Mr. OTTLEY. What I should like to say for the record is that definitely I think it would be a very bad thing for the money and credit to be controlled by one group.

Mr. STRONG. Yes, sir.

Mr. OTTLEY. But now, when you come to the question of three, why I do not know that I would be so sure of that.

Mr. STRONG. You would not be so sure if it was only two?

Mr. OTTLEY. In other words, this is just my opinion expressed to you in an effort to meet your question fairly. It is my opinion that, with the number of strong individual unit banks in the sixth Federal reserve district, if you announced branch banking tomorrow within Federal reserve district lines, you would likely have half a dozen right now.

Mr. STRONG. But you do not think one would be a good thing?

Mr. OTTLEY. No, sir.

Mr. STRONG. Then, do you think Congress should pass laws preventing, through group banking or any other form of banking, the amalgamation or the merger of those groups in those districts, or if you do not think so, what restrictions do you think we should pass?

Mr. OTTLEY. I think in the interest of the public there should certainly be restrictions or if they got below a given number, either the Comptroller of the Currency or some governmental agency should have discretion to stop it; in other words, I come back to my original proposition that I do not think it should come down to one. I think it should be confined to two or more.

Mr. STRONG. I am advised that Mr. Luce has to attend a meeting, and I shall yield to him at this point.

Mr. LUCE. I thank the chairman for his courtesy in yielding to me.

I see, Mr. Ottley, by Exhibit C, which is the statistical exhibit relating to your statement, that the Trust Co. of Georgia owns all of the stock of the First National Associates, and the First National Associates own a controlling interest in the stock of eight other banks, and in turn the Trust Co. of Georgia stock is held by the trustees for the benefit of the shareholders of the First National Bank. That brings the control of this whole set-up to the First National Bank.

Much criticism is being expressed of the complicated arrangements, by which it turns out, in the last analysis, that a few men or one man may control a network of corporations, which makes it difficult for investors to understand the true situation and is thought by some to endanger minority holders.

What is the reason for this complication in your case?

Mr. OTTLEY. Well, in the first place, by law a national bank can not own stock of any kind. The Federal reserve bank stock, I understand, is the only stock permitted by law for a national bank to own; so the idea of this set-up or similar set-ups—it can be done in several different ways—the main idea is to maintain the same list of shareholders in the First National Associates as are maintained in the banks. Consequently the only certificate of stock that is issued is the stock of the First National Bank, and there is an indorsement on the back of it showing that the shares of the Trust Co. of Georgia are held for the beneficial interest of the shareholders in the First National Bank.

Mr. LUCE. If the results not contemplated by the existing law are secured in this fashion—without raising any question of whether such evasion of law is reprehensible or not, but assuming for the moment there is nothing questionable about it—do you not think that the existing law should be changed so as to get rid of these complications?

Mr. OTTLEY. I am very frank to say to you that I think—as far as my opinion is worth anything—that it should be changed to simplify the situation and that the interests of the country and banking would be best served by permitting branch banking. That would simplify the very things to which you refer.

Mr. LUCE. That would not, of itself, remove this pyramiding of corporations nor meet the view about protecting the rights of minority stockholders.

Mr. OTTLEY. I hold no brief for the particular form of this. As a matter of fact you probably noticed in my paper that I stated if we are going to progress, instead of the holding company being a subsidiary company, it is my opinion that it would be simpler for the holding company to be the major company and for that company to own directly the stocks of these other institutions.

Mr. LUCE. Has this title "Trust Co. of Georgia" any significance in the word "trust"?

Mr. OTTLEY. Yes sir; that has, for the reason that that Trust Co., with its capital of \$2,000,000 and surplus and undivided profits of \$2,946,000 is what its name implies; that is, it is the first trust company organized in the State of Georgia and the business of that company is confined strictly to trust business and exclusively that business.

Mr. LUCE. Do your other banks turn over to it all the trust business or do they continue to do a trust business?

Mr. OTTLEY. Under the law, the First National Bank, by approval of the Federal reserve board, has trust powers. If you come into the First National Bank with a trust business you are referred to the Trust Co. of Georgia. If you say for any reason, "I prefer to have a national bank act as my executor, trustee, etc.," why, we say, "All right." But what I mean is that the First National Bank, while it does a banking business, has two vice presidents who are trust officers, in addition to being vice presidents. If anybody insists or prefers a national bank to handle their trust business, we do it. But the Trust Co. of Georgia does a trust business.

Mr. LUCE. Will you tell us about the relations between the Trust Co. of Georgia and the First National Co., which, I take it, is a securities company?

Mr. OTTLEY. Yes, sir; the First National Co. is a securities company and they do the usual business done by such companies connected with banks throughout the country.

Mr. LUCE. Does the Trust Co. of Georgia, having at issue the disposal of \$1,000,000 say, that has been turned over to it in trust—does it, itself, continue to buy securities, or does it turn to the First National Co. and have the First National Co. buy the securities?

Mr. OTTLEY. The First National of Georgia is not engaged in either the purchase or sale of securities.

Mr. LUCE. What do they do with their money?

Mr. OTTLEY. They simply invest it. When I say purchase and sale, I mean that in the proper sense; that is, they do not do any trading. They make loans on real estate and own certain bonds, and employ their capital to earn an income on it in addition to the income which they receive from the trust business proper. But so far as the purchase and sale of securities to the public are concerned, that is conducted by the First National Co.

Mr. LUCE. Suppose some industrial amalgamation is in progress in New York and you are notified of a chance to participate. Who furnishes the money?

Mr. OTTLEY. The First National Co.

Mr. LUCE. Where do they get it?

Mr. OTTLEY. If they have it themselves, they use their own money. If they need additional money, they are in a position to borrow it and do borrow it.

Mr. LUCE. Does the First National Bank, for example, get a chance to get into this distribution, through the First National Bank of Atlanta?

Mr. OTTLEY. The profit on the transaction you referred to in the last few moments is earned by the First National Co., which, in turn, at the end of the year, is the same thing as the First National Bank, since it is all one. But I mean the bank does not engage in those participations. They are handled by the First National Trust Co.

Mr. LUCE. My questions are directed to find out how this situation meets the charge that when securities of less assured safety are issued in New York and distributed throughout the country, banks in such places as Atlanta are virtually compelled to take a share in that issue, through the probability that if they decline because their own judgment is against it, they will not have a chance in other distributions; and the further charge that where there are these combinations, it is possible for a bank which does not readily sell this or that type of securities, to work them off by investing them in trust funds which have been put at the command of the bank.

Do I make myself clear?

Mr. OTTLEY. Yes; you make yourself clear. In answer to your question I would say that the First National Co. is organized and does the business to which you refer. Now, if that company should acquire securities that they could not sell and should go ahead and invest in them assets which they hold for trust purposes, they would be doing that certainly contrary to law and contrary to the custom in this institution as well.

Mr. LUCE. Now, a final question—

Mr. OTTLEY. Just one minute further: You have a member of your committee here who is a lawyer from Georgia who will tell you that the law is very specific as to what can be done unless authorized under the will.

Mr. LUCE. We have been confronted this year by the tangled situation of a joint stock land bank in Kansas City—and by the way, I would say for the benefit of the committee, a full statement of the proposal by the stockholders in that matter is printed in this morning's United States Daily—and in that situation the trouble arose from the opportunity of the management to invest in doubtful securities, indulge in promotion and to resort to various types of questionable banking.

That naturally prompts us to examine bank set-ups to see if they furnish the same opportunity, regardless of whether they are in righteous hands.

Now, let me turn to the last institution on this sheet, the Atlanta Savings Bank, which seems to have deposits of only \$58,258. I am unfamiliar with the situation of savings deposits in the South. Will you explain why that is so trivial?

Mr. OTTLEY. Yes, sir; I shall be glad to. The Atlanta Savings Bank has a very old charter; it was originally chartered by the Legislature of the State. It does not solicit deposits and the nominal amount of deposits are simply deposits to comply with a decision of the Supreme Court of Georgia.

The business of the Atlanta Savings Bank is strictly confined to the lending of money on real estate by way of mortgages for itself and for its clients. Those clients are individuals, but very largely represent life insurance companies. They represent, as loan correspondents, several life insurance companies, the custom being that in some of the cases they make the loans out of their own funds and they present them to the life insurance companies as completed transactions. But they do not solicit deposits and I hope I have made myself clear that they simply accept, as a matter of fact, a few deposits to comply with a decision that was rendered by the Supreme Court of Georgia quite a number of years ago. They are not in the deposits business. The real estate mortgage loan business is their real business.

Mr. LUCE. If a wage earner in Atlanta wishes, against the needs of sickness and old age, to lay aside a few dollars every month to put in some bank, where does he go?

Mr. OTTLEY. The First National Bank. There are several strictly savings banks in the city and, in addition to that, the commercial banks all have savings deposits.

Mr. LUCE. What is the customary rate of interest you are paying?

Mr. OTTLEY. The rate of interest of the First National Bank is $3\frac{1}{2}$ per cent per annum.

Mr. LUCE. Are those funds separated in any way from the other funds of the bank?

Mr. OTTLEY. No, sir; they are not.

Mr. LUCE. Has it ever been discussed in your neighborhood that the savings of the poor deserve particular protection?

Mr. OTTLEY. Well, of course, that matter has been discussed from time to time—certainly in print—at various times by different people.

Mr. LUCE. Does it seem to you proper that we should permit national banks to mix the funds of those depositors with those put in by men engaged in commercial enterprise who are, as a rule, in a much better position to hazard the risks of a commercial bank?

Mr. OTTLEY. Well, I think that is a question perhaps not as simple as it sounds, for this reason, that you take a large number

of people of very small means that carry their accounts in what are termed straight checking accounts; that is to say, they are on deposit subject to check, people who carry their household accounts and have them immediately available. There are really thousands of that type of people and they do not receive any interest on that at all—on those small accounts subject to check.

Theoretically it would seem, at first blush, that your question would indicate that the savings accounts were those of the poor or of very moderate means. On the other hand, the savings deposits, by dollars, are not represented by people such as you would imagine, but they are the thrifty people. Corporations have surplus money from time to time and in order to produce interest they will put it into a savings account to draw 3½ per cent interest. So, I would say that the major portion of the accounts, not necessarily by numbers, but by dollars, are represented by owners other than the class of people that you particularly have in mind, but that taken into consideration and to come out with a clear, flat answer to your question, I would say that if customers were dealing with a national bank, they should all be treated alike and particularly the man who has \$100 and comes and puts it to his account subject to check and does not draw interest on it, with the man who puts \$100 in a savings account and draws interest on it which, in another way of speaking, means that one man is depositing money and another man is lending it. I do not think there should be any difference between one class of customers and another class.

Mr. LUCE. I should like to pursue the inquiry, but I must leave. I will simply say that your point of view is not that of the law-makers in my own neighborhood for in New England we find a trust company compelled by law to segregate its savings deposits, although next door a national bank, which is beyond the reach of a State legislature, allowed to mingle those deposits. Our belief is that savings have a peculiar sanctity and should be segregated.

Mr. STRONG. Mr. Wingo has an engagement that is pressing and I will yield my questioning to him in order to permit him to question the witness before he has to leave.

Mr. WINGO. As I understand it, your holding company or parent company is the Trust Co. of Georgia?

Mr. OTTLEY. No; our holding company is the First National Associates.

Mr. WINGO. And all of the stock of that is owned by the Trust Co. of Georgia?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. So at the top of your structure is the Trust Co. of Georgia, which owns all of the stock of the First National Associates, and the First National Associates, in turn, own a controlling interest in the different unit banks that compose your group?

Mr. OTTLEY. That is correct.

Mr. WINGO. That is the structure?

Mr. OTTLEY. On the other hand, the First National Bank, I really would take it, is the head, in that that is the stock held by the public and the ownership of the Trust Co. of Georgia stock is indorsed on that certificate, so the shareholders really own the First National Bank and likewise the Trust Co. of Georgia.

Mr. WINGO. Well, in other words, your corporation at the head—the Trust Co. of Georgia—its shares are owned by the shareholders of the First National Bank?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. And the connection is not a corporate connection; it is the similarity in identity of the stockholders?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. As far as the corporate identity is concerned, the prima facie one is the Trust Co. of Georgia whose stock is owned by the First National Associates, and the First National Associates is the corporation that owns the controlling stock in the different small corporations that constitute the unit banks in your so-called group?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. Do you find that structure gives you effective control of the different unit banks?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. And you are enabled to dominate those banks so as to protect your shareholders against improvident loans by the small banks constituting your group?

Mr. OTTLEY. I do not know whether you were here when I read my original paper.

Mr. WINGO. No; and I have not read it all. The point I want to get is this: Here is a proposition that you have set up there—

Mr. OTTLEY. I think I can tell you in one second what I think you want to know and that is that in those affiliated banks, each one of those banks has an officer of the First National Bank as a director in that institution. Next, we have a vice president who gives his exclusive time to—

Mr. WINGO. If you will pardon me, you have set all this out in your previous statement. The record shows it. My question is bottomed upon what you said before; that is, you have found, by practical experience, that the set-up which you explained, and the connection by which you dominate and control these unit banks, has been effective in practice to the extent you have protected your stockholders in the parent association against improvident management of the individual units of your system.

Mr. OTTLEY. Yes.

Mr. WINGO. Nothing but necessity puts you in the group banking business. If you had been authorized to conduct branch banking within trade areas, you would be engaged in that?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. Do you regard branch banking as the most efficient and economical method of banking?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. You were one of the receivers of the Witham chain banks that failed a few years ago?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. How many banks were in that chain?

Mr. OTTLEY. Somewhere between 100 and 200.

Mr. WINGO. How many States did they cover?

Mr. OTTLEY. They covered Georgia and Florida and I think perhaps some in New Jersey and some in New York.

Mr. WINGO. They were scattered around considerably and they were not confined to any particular trade area, were they?

Mr. OTTLEY. No.

Mr. WINGO. They failed, did they not?

Mr. OTTLEY. A great many of them did. All of them did not.

Mr. FENN. Did you say they all failed?

Mr. OTTLEY. No, sir.

Mr. FENN. Pardon me; I did not hear the witness's answer.

Mr. WINGO. How many failed?

Mr. OTTLEY. Well, I have not the record on that, but I would just simply say two-thirds of them failed.

Mr. WINGO. Approximately—that is all I wanted.

Mr. OTTLEY. Two-thirds to three-quarters.

Mr. WINGO. And the rest of the pins in that alley would have fallen down if you, as receiver, had not taken hold of them? I think that is a fair way to put it—that the pins were falling down and when two-thirds of them fell down they were put into the hands of a receiver and you took charge as receiver?

Mr. OTTLEY. I should like to refresh your memory on that, or at least state exactly what happened. I was not receiver of the Witham banks. They were never put into the hands of receivers, but what they did was they had a concern known as the Bankers Trust Co., and the Bankers Trust Co. went into the hands of receivers and I was one of the three receivers.

The Bankers Trust Co. did not own a control in these banks, nor did they have stock in a great many of them, but their method of operation was simply a contractual relation; that is to say, this Bankers Trust Co. made a contract with those banks for a compensation of so much a year to act as what they termed fiscal agents and the Bankers Trust Co. was the concern that went into the hands of receivers.

Mr. WINGO. And you were one of the receivers of that concern?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. That is what you might call the parent corporation of that chain?

Mr. OTTLEY. Well—

Mr. WINGO. Either by ownership of stock or by being tied up by contract, they controlled them?

Mr. OTTLEY. It was not by ownership of stock but by contract.

Mr. WINGO. In some cases they owned controlling interest in the stock?

Mr. OTTLEY. I do not know. So far as that is concerned, I doubt if they owned the control of a single one of the banks; and if they did, it would be probably only one.

Mr. WINGO. But they owned considerable stock?

Mr. OTTLEY. Not so much. The founder of that system organized a large number of those banks himself.

Mr. WINGO. He owned quite a large portion of the stock in each one of them, did he not?

Mr. OTTLEY. Yes.

Mr. WINGO. At any rate, that was known as a chain banking system?

Mr. OTTLEY. That was known as a chain system; yes, sir; but it hardly could be called strictly a chain system. In a sense it was rather unique and in a class by itself; in other words, a chain, group, or branch system, as I understand it—and I suppose you do—means

ownership. This was rather a peculiar banking system. This banker conceived the idea of just simply establishing these banks and making contracts to supervise them for a consideration. That was the main method. It was not by ownership.

Mr. WINGO. In other words, it was an operating control and not an ownership control?

Mr. OTTLEY. Well, now, when you say an operating control, I should like to go into that a little further. I am trying to give you a clear picture of it. These banks made a contract with the Bankers Trust Co., we will say, as financial agent for which the bank agreed, on the one hand, to pay a cash consideration per annum and, on the other hand, this Bankers Trust Co. agreed to do certain things, which were to audit the banks and borrow money for them and assist them in investing money when they had a surplus, and so forth. So far as the control is concerned, they did not have control and, if I may make myself clear, there was nothing in the contract that gave them the control. The control remained with the board of directors.

Mr. WINGO. Technically; yes. I am speaking about the substance of the thing. That is one reason why they failed. The people regarded it as a chain, dominated by one man or one group, and when they saw one link in the chain break, they started a run on the rest of them.

I am talking of the psychology of it and not of the technical feature of it. They knew the corporations belonged to one group or one chain and they got afraid because one link had broken or proven defective and that precipitated the run.

Mr. OTTLEY. That is the general impression.

Mr. WINGO. That is the danger of chain banking, is it not?

Mr. OTTLEY. Yes.

Mr. WINGO. You are opposed to chain banking?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. You think it is unwise, unsound, and uneconomical?

Mr. OTTLEY. I do.

Mr. WINGO. You regard the branch banking system as the most economical system that can be established?

Mr. OTTLEY. I do.

Mr. WINGO. What, in your judgment, as a practical banker, experienced in banking in that part of the country of which your city is about the hub, in the South Atlantic States—in your judgment, in what size community can a unit bank be operated profitably? What is the minimum size community?

Mr. OTTLEY. I think the population would not be so good a measure as deposits.

Mr. WINGO. Of course there are exceptions, but as a general rule, there is a fairly uniform relation between population and banking resources in business. It may be a very strong community financially and otherwise, but taking it by and large over the South Atlantic States, there is a relation between population and the banking done. In your judgment, what would be the size of community better served by a branch than by an independent unit bank, from the standpoint of population?

Mr. OTTLEY. You have propounded a question that would take just a little thought. Now, about your population, I think as to the unit bank, the population would have naturally a bearing but at the

same time the question of the business of the surrounding or subordinate territory of that town also has a bearing; that is to say, if you have a purely agricultural territory, with no manufacturing or no diversification, I think all those questions have their bearing.

Mr. WINGO. In other words, you think it is easier to maintain a unit bank system in a community, even if it is small, if the business is diversified than in a larger community if the business is not diversified?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. In the last analysis, does not the question of the maintenance of any bank on a profitable basis depend upon two things—one, the available business, and the other, the ability and character of the management? Can an independent unit bank thrive if the public has no confidence in the ability and character of the management, whereas, in the same community or maybe a smaller community, a unit bank would thrive if there was a complete confidence in the ability and integrity of the management? Does not the personal equation count more in banking than in manufacturing?

Mr. OTTLEY. I think so.

Mr. WINGO. Because you depend, for the greater amount of your capital, on the deposits?

Mr. OTTLEY. Yes, sir.

Mr. WINGO. And deposits depend on confidence?

Mr. OTTLEY. Yes, sir. The deposits unquestionably depend largely upon confidence.

Now, the question about your loans, is a very important but still a very different matter.

Mr. WINGO. Do your constituent banks, your different units—make loans upon the shares of stock of either the First National Bank or the Trust Co. of Georgia or the First National Associates?

Mr. OTTLEY. The trust Co. of Georgia occasionally has made, and occasionally does make, loans upon stock of the First National Bank. That is the only transaction of that kind which we make.

Mr. WINGO. Take one of your small individual unit banks tied up in your corporation—we will call it a constituent member of your group—does it make loans upon the shares of stock of either the Trust Co. of Georgia, the First National Associates—either one of those two?

Mr. OTTLEY. There is only one exception to the rule that they do not that I should like to make off the record.

(Discussion off the record.)

Mr. WINGO. Under the law, your banks can make loans upon the stocks of each other?

Mr. OTTLEY. Under the law they can.

Mr. WINGO. And in at least one instance they have done it—without giving the name in your answer?

Mr. OTTLEY. That is correct.

Mr. STRONG. I want to go back, Mr. Ottley, to the line of questions I had adopted. I believe we had reached a point where you thought, in order to keep branch banking from being controlled by one or two groups in the Federal reserve districts, that Congress should pass some law preventing it.

If we should have branch banking throughout the Federal reserve districts, there should be some law to keep them from being reduced to one or two groups?

Mr. OTTLEY. I am free to admit there should be a law to prevent them from being reduced to one group.

Mr. STRONG. Do you not really think if there were two groups and the dominating minds of the two groups belonged to the same club, the same church, and went with the same crowd, they would be very apt to consult with each other and plan with each other and a borrower who would want a large line of credit would discover that those two gentlemen would agree between themselves as to how much they would give him if they gave him anything at all? Do you not know they would consult together as two managers of two great combinations?

Mr. OTTLEY. I think it is perfectly reasonable they should and I think they would.

Mr. STRONG. They would work together if there were two; they would consult together, because they would work together?

Mr. OTTLEY. I presume so.

Mr. STRONG. Do you think there should be some law to prevent holding companies from dominating branch banking groups in two or more Federal reserve districts?

Mr. OTTLEY. Well, the idea I have, Mr. Chairman, as outlined, is trade areas.

Mr. STRONG. You would not let any one who controls banks in one trade area go over and control banks in another trade area?

Mr. OTTLEY. That is correct.

Mr. STRONG. You think that would be bad?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. What is the most northerly State in your district?

Mr. OTTLEY. Tennessee.

Mr. STRONG. You think they should go into Tennessee in your district but not into Kentucky?

Mr. OTTLEY. I would think, judging from Atlanta, Kentucky would be out of the trade area.

Mr. STRONG. You do not think they should be allowed to go out of the trade areas?

Mr. OTTLEY. No, sir.

Mr. STRONG. Governor Young, when before this committee, thought or said it was his opinion that within 50 years we would have nation-wide branch banking, evidently realizing the human desire to dominate and control would want to step across those trade areas. Do you think there is any danger of that?

Mr. OTTLEY. I have just said, Mr. Chairman—

Mr. STRONG. Yes; you think it should be kept to trade areas.

Mr. OTTLEY. In my opinion it should be kept within trade areas.

Mr. STRONG. And your idea is that we should say they may have trade-area branch banking but not let them set up branches in other than their trade areas?

Mr. OTTLEY. That is right. I made the slightest exception. I am more familiar, naturally, with the sixth Federal reserve district. You stated that Tennessee is the northern State within our boundaries and I said going into Kentucky would be out of the trade area of Atlanta. You took, for instance, as I said, the hardest nut the committee will have to crack, which is the trade area. Georgia goes right up to the South Carolina line.

Mr. STRONG. I know.

Mr. OTTLEY. I think the trade areas should be restricted to the sixth Federal reserve district, and if anything over that it should be the exception and should be passed upon by the Federal Reserve Board or the Comptroller of the Currency.

Mr. STRONG. Whatever trade areas we set up, they should be absolutely kept within them?

Mr. OTTLEY. Yes.

Mr. STRONG. Why?

Mr. OTTLEY. Because of just what apparently is in your mind about the absorption of credit and money in this country into the hands of a few. If you did that, you would have 12——

Mr. STRONG. Your idea is if we do not maintain 12 Federal reserve districts outside of which branch banking shall not reach or extend from one district to another, there would be a danger of monopoly of credit and money in the country?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. You think it would be all right to have a monopoly of money and credit inside of the Federal reserve districts?

Mr. OTTLEY. The monopoly would be divided by 12, to say the least, in the first place, and in the second place, I am not in favor of a monopoly in the sense of one banking combination or two——

Mr. STRONG. But if you are afraid to let them overlap from one Federal reserve district to another because of the fear of monopoly of money and credit in the United States, are you not afraid of monopoly of money and credit inside of the Federal reserve districts?

Mr. OTTLEY. Personally, I am not.

Mr. STRONG. You would not be afraid if you were the man in control?

Mr. OTTLEY. Mr. Chairman, I do not mean that.

Mr. STRONG. If you knew that the man in control was able and honest and competent, you would not be afraid?

Mr. OTTLEY. I would not want one individual of any kind in control.

Mr. STRONG. But you do not think two is bad?

Mr. OTTLEY. I think it would be better if there were three or four.

Mr. STRONG. But you are not afraid——

Mr. OTTLEY. I can give you a picture along that line, and that is this: You take in the smaller towns, if you had half a dozen groups—branch or group or any other system—a number of those small towns in the rural communities would not support more than one bank under any circumstances, and it would not make any difference whether you had five or six or a dozen.

Mr. STRONG. Do you not know, as a matter of fact, when you have but one bank in a town, it pretty much dominates and controls the business of that town?

Mr. OTTLEY. Certainly.

Mr. STRONG. Now, let us get back to this proposition of having two or three or four or five great banks having branches within the Federal reserve district: Would there be any security against the cashier of the head bank absconding with the money of the bank? There would not be any protection against that, would there?

Mr. OTTLEY. In this day and time, all well-regulated banks carry insurance policies against that.

Mr. STRONG. But if you were president of any insurance company how would you like to insure a bank spreading over six States and having 400 or 500 branches that one man dominates and controls—would you like to carry that insurance?

Mr. OTTLEY. Mr. Chairman, you are getting out of my territory when you get into the insurance field.

Mr. STRONG. Well, I know, but you are a pretty reasonable man and I imagine a pretty good banker and a pretty good business man. I just wonder if you would not want a pretty good premium to insure a big group of banks. For instance, here was the chain of banks of which you were receiver, with 100 banks that failed. An insurance company that carried insurance on those banks would be in a pretty bad way, would it not?

Mr. OTTLEY. The cause of the failure of those banks is entirely separate and apart from what you are discussing now—that is, absconding.

Mr. STRONG. Yes; I know they said that that failure was due to very bad investments. But it would be a pretty serious thing for this country for a bank having several hundred branches, dominating six States, to fail?

Mr. OTTLEY. Yes.

Mr. STRONG. If the Government should permit the building up of financial institutions of that kind—you suggested they are semi-public institutions—we should enact some pretty close regulations of those banks?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. Should we permit them to buy and sell securities?

Mr. OTTLEY. The banks themselves?

Mr. STRONG. Certainly.

Mr. OTTLEY. Under the present law——

Mr. STRONG. You think the regulations should be pretty strict?

Mr. OTTLEY. I think regulations all along the line should be strict.

Mr. STRONG. Of course, the temptation now is to underwrite or float great bond issues or great stock issues. You think that should be prohibited?

Mr. OTTLEY. No, sir.

Mr. STRONG. You would not let one of these big banking groups, in a position to dominate and control the business—the money and credit—of five or six States, have free rein to buy and sell securities?

Mr. OTTLEY. What you contemplate right now would have no bearing whatever on the domination of business or finance—the purchase and sale of securities.

To illustrate that exactly, you take the major banks in New York and Chicago and in Boston: They all have offices in the city of Atlanta right now for the purchase and sale directly of securities. So, if there was only one bank in Atlanta and only one bank in the territory, they would have no monopoly.

Mr. STRONG. I am not talking about competition; I am asking if they should have the right to do that?

Mr. OTTLEY. I think if banks can not be depended upon to distribute securities, then I do not know whom you can depend upon to do it.

Mr. STRONG. You think group banks or banks with many branches should be allowed to buy securities?

Mr. OTTLEY. I do.

Mr. STRONG. And you think they should be regulated by the Government as to the interest they should charge the people?

Mr. OTTLEY. The various States have that.

Mr. STRONG. But if the Government is going to permit trade areas nation-wide branch banking—

Mr. OTTLEY. Yes, sir; that is all right.

Mr. STRONG. You think it is all right for the Government to limit the amount of interest to be charged?

Mr. OTTLEY. Yes, sir.

Mr. STRONG. What should that be?

Mr. OTTLEY. How low or how high?

Mr. STRONG. How high. I do not think you need protect the bankers against lending it too low.

Mr. OTTLEY. If you were in the banking business to-day you might have a different view of that.

Mr. STRONG. I do not think I would make it too low. What do you think should be the rate in a national usury law to protect the people? If we are going to turn the banking over to groups in Federal reserve districts, should we have a national usury law, and if so, how high should it go?

Mr. OTTLEY. Why, I would have no hesitation in saying that 8 per cent should be the maximum.

Mr. BRAND. If they did have one, it should be 8 per cent?

Mr. OTTLEY. I mean if the Government permits branch banking for national banks, I think it is perfectly all right for them, along with the other regulations, to have a usury law.

Mr. STRONG. Do you think there should be a limit to the amount of loans these great banking institutions could make? You must remember that there is going to be an immense capital and lending any certain percentage of their capital would not be any protection.

If you had a branch bank in Atlanta covering six States with 100 branches in each State, that would be 600 branches. You would have an immense capital. Do you think you should have a limitation on the amount you can loan to any one individual or corporation?

Mr. OTTLEY. In order to fully understand the question, do you mean the greatest amount they could lend?

Mr. STRONG. Yes; to any individual or corporation.

Mr. OTTLEY. Absolutely.

Mr. STRONG. In other words your idea is—and it is mine—that if we must permit a bank to have branches throughout a trade area in, say, six States, like your Federal reserve district, we should pass laws to regulate them in the protection of the public as we do other public-service corporations?

Mr. OTTLEY. Yes, sir.

Now to illustrate that point: You have a national bank now that is regulated to the extent that they can only lend 10 per cent of their capital and surplus to any one corporation or individual.

Mr. STRONG. But you might have a billion dollar surplus, and if you run a banking institution with branch banks in six States and were allowed to lend 10 per cent of the bank's capital to any one corporation, it would be a rather dangerous loan. My proposition is this: We have permitted monopolies in public service corporations. I myself had an interest in a small power company and a couple of telephone companies. When I sold them they merged into a very

large concern where they cover 15 or 25 counties in my State and 75 to 100 towns. Now the State, when it permits such public service corporations a monopoly, is very careful in guarding the public interest, what they shall charge the public, how much stock they shall issue, what surplus shall be set aside, what amount shall be set aside for reconstruction and depreciation and it lowers the rate, if the corporation is making too much money.

I am just wondering, if we are going to allow the money and credit of the Nation to be controlled by monopolies, divided up into 12 Federal reserve districts or 20, with a strict law prohibiting them from overlapping, whether or not, in the interests of the public, we should not pass laws governing their operations to protect the public.

Mr. OTTLEY. I think laws governing the operations of banks should be passed and they should be very strict.

Mr. STRONG. In the interests of the public?

Mr. OTTLEY. In the interest of the public; yes, sir.

Mr. STRONG. That is all.

Mr. OTTLEY. Now, when it comes to the question of regulation, I think that your usury law would really protect you. If you had a general usury law it would protect the public and it is my opinion that the old law of supply and demand, plus keen competition, would really take care of it, and one very material difference between banking and the general utilities companies or public utilities, to which you referred, is this, that in the utility company and telephone company to which you referred, that you sold and were merged into other companies, the people in those areas could not get telephone service from anybody but that company and could not get power from anybody but that company, but as a matter of information I should like to say to you that even in this large bank of which I am president in Atlanta, we are in constant competition with New York and with Philadelphia and with Boston and with other cities, and particularly the commercial note brokers, so that when a man comes in and wants \$100,000 or \$200,000 he asks, "What is your rate?" and you have to quote the rate and if that rate suits him, yes; if not, he sells his note to a note broker and that note broker, in turn, may sell it to a bank in California.

Mr. STRONG. I understand the large borrower can protect himself, but in the small towns, where there would not be competition in such towns, unless we have a usury law, the people would have no protection. So I think we should have laws defining how the bank shall invest its money, how much it shall lend to each borrower, what interest it shall charge, what surplus it shall have and all the regulations you can put around the banks—if you turn over the money and credits of the Nation to two or three groups in each Federal reserve district, I think we are facing a grave danger and I just wanted to get your views, and you have been very fair and I thank you very much.

Mr. LETTS. Mr. Ottley, did I understand you to say that under your State system branches are permitted?

Mr. OTTLEY. Yes, sir; and have been for many years.

Mr. LETTS. With any restriction in that regard?

Mr. OTTLEY. Up until a few years ago, and for many years past, branch banking in Georgia has been wide open. A few years ago an antibranch banking bill was passed.

These branches that were established many years ago are still in operation.

As I say, several years ago they passed an antibranch banking bill. Nobody had any notice of it. It was attached onto some bill after 12 o'clock at night. That bill prevented the establishment of additional branches in Georgia. At the last session of the legislature, which was a little less than a year ago last summer, they passed a repeal of that to an extent which practically conformed to the McFadden Act.

Mr. LETTS. How long did that restriction operate in the State—how long was it in operation before it was repealed?

Mr. OTTLEY. Just two or three years.

Mr. LETTS. I understood you to say that you favored branch banking as the best way of rendering service.

Mr. OTTLEY. Yes.

Mr. LETTS. You think it is better than group and better than chain banking?

Mr. OTTLEY. Yes, sir.

Mr. LETTS. Feeling that way about it, how does it come you did not reorganize and go into the State system rather than stand by the national system, and thereby enable yourselves to pursue the policy that you regard as the best for the organization and maintenance of branches throughout your trade area?

Mr. OTTLEY. I am very pleased to answer that question and to say that I am a very strong advocate of the national banking system.

Mr. LETTS. What particular advantage do you find in that system?

Mr. OTTLEY. In the first place, a national bank in Georgia is a national bank in California. You have the same laws governing that and a great many corporations doing a national business prefer to deal with a national bank.

In the second place, I think the regulation and supervision of national banks is better than that of State banks. With the head comptroller at Washington being a national official, he is not subject to what you might say is the close intimate touch that the various superintendents of the State banks have.

Mr. LETTS. How long have you been an advocate of the branch banking system?

Mr. OTTLEY. Well, personally, for a great many years.

Mr. LETTS. For a long time?

Mr. OTTLEY. Yes.

Mr. LETTS. I was interested in one part of your formal statement, because it relates to a situation which I am interested in. I come from Iowa, which is a rural State where we have many small towns.

Your statement is this, that for outlying communities where a small branch could be placed and kept open two or three days a week, service might be rendered by providing a place for the deposit of money and the paying of checks and deposits of valuables for safe-keeping and then you state: "Perhaps making a few small loans."

Does that hold out the right and the necessary opportunity for rural communities? I notice you minimize the idea of loans?

Mr. OTTLEY. I should like to amplify that statement and I am glad of the opportunity of doing it. I tried to be conservative in my statement and I think that is a very conservative statement about the loans.

I do not know whether you gentlemen will agree with me, but when it comes to banking I think that the primary and first function of a bank is a safe place for people in which to deposit money, and you take in a lot of these communities that have suffered by small bank failures, the depositors who have not owed the bank any money have been really the greatest sufferers. My suggestion is that if you can primarily put a place in which people can deposit their money safely and take care of their valuables, and such other functions and to make such loans—I mean to be very conservative in that statement—make such loans as might present themselves as safe and sound—

Mr. LETTS. Primarily I imagine there are a great many places all over the country where animals are raised and feed is produced. It is often necessary for farmers to borrow money at seasonal times to hold over their crops and feed it out to the growing animals and they need accommodation. Would it be your notion that in cases of that kind these borrowers should be prepared to go to the central bank for their accommodation?

Mr. OTTLEY. No, sir. That, as I outlined, would be handled right there.

Mr. LETTS. You think that should be handled locally?

Mr. OTTLEY. Yes, sir.

Mr. LETTS. A great many men out my way raise corn in abundance and find that the best market for it is by feeding cattle and hogs. Many of the hogs are raised in my State and many of the cattle are brought in from Texas, New Mexico, and Colorado and other States and they are held in Iowa for a few months, fed up and sent on into Chicago.

Now, many farmers that have raised the corn necessary for those operations, find that they must borrow the money with which to buy the cattle and they must have that money until the cattle reach Chicago.

Under your suggestion, could those men be accommodated?

Mr. OTTLEY. I should think that would be very desirable.

Mr. LETTS. When you say perhaps making a few small loans, you rather overemphasize the idea of being conservative, do you not?

Mr. OTTLEY. I think I can make that plain.

Mr. STRONG. Let me suggest that we are right by 1 o'clock now.

Mr. LETTS. I have just one other question.

Mr. STRONG. All right; proceed.

Mr. OTTLEY. When I wrote that statement, I had primarily in mind the sixth Federal reserve district, and I did not have a picture of the State of Iowa which I know does a lot of business such as you have in mind. The mere fact I stated a few small loans, was a conservative statement and what I really thought would develop in the small communities, but the branch of a bank, regardless of the size of the town, would be capable of handling just as large a loan, if the opportunity and necessity presented, as they would be at the head office.

Mr. LETTS. The answer to it would be that in each trade area the central bank would through these branches, furnish the service which the community demands?

Mr. OTTLEY. Yes.

Mr. LETTS. And, in justice, requires?

Mr. OTTLEY. Yes.

Mr. STRONG. Mr. Seiberling wants to ask just one question.

Mr. SEIBERLING. How many cities are there in the sixth Federal reserve district of 100,000 population or more?

Mr. OTTLEY. Atlanta is one. Of course, we start with New Orleans, that being the largest.

So, New Orleans is one. I have not the census before me, but I will just approximate it. Atlanta is two, and Birmingham, say, three. Nashville would be four and Chattanooga five, and I suspect Savannah would be sixth.

Mr. SEIBERLING. How about Macon?

Mr. OTTLEY. I think Macon has less than 100,000, but it might be around in that neighborhood. They would be the largest cities in the district.

New Orleans, Atlanta, Birmingham, Nashville, Chattanooga, Savannah, and Macon—those would be the largest cities.

Mr. STRONG. I think we had better adjourn now until to-morrow morning. You will be here to-morrow morning?

Mr. OTTLEY. I am at your service.

Mr. STRONG. If there is no objection, we will adjourn until 10.30 o'clock to-morrow morning.

Mr. SEIBERLING. And I will continue, Mr. Ottley, in the morning.

(Whereupon, at 1 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Wednesday, April 30, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, APRIL 30, 1930

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

The committee met at 11.10 a. m., in the committee room, Capitol, Hon. Robert Luce, presiding.

Mr. LUCE. The committee will come to order and we will resume the hearings.

STATEMENT OF JOHN K. OTTLEY—Resumed

Mr. LUCE. Mr. Seiberling, I believe you were questioning the witness when we adjourned yesterday.

Mr. SEIBERLING. Mr. Ottley, I asked you yesterday about the cities in your district that had a population of 100,000 or more and you gave me a list of seven of them. I notice among the cities you gave me Nashville was one of them?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. I notice you do not have a bank in Nashville?

Mr. OTTLEY. No, sir; we do not.

Mr. SEIBERLING. Now, has Nashville financial institutions large enough and capable of taking care of the needs of that community?

Mr. OTTLEY. Yes, sir; they have several very strong banks in Nashville and, as a matter of fact, they have gone out in their territory in some of the smaller towns around in the surrounding territory of Nashville. There is one bank in Nashville—at least one banking firm in Nashville—that has gone as far as Memphis.

Mr. SEIBERLING. I suppose they have a large banking building in which they have made an investment?

Mr. OTTLEY. Yes, sir; in Nashville?

Mr. SEIBERLING. Yes, sir.

Mr. OTTLEY. Yes, sir. There is one very large bank there that I think owns its own building and then there is another large national bank that I think leases their building.

Mr. SEIBERLING. And what is true of Nashville is true also of these other cities of 100,000 or more?

Mr. OTTLEY. Yes, sir. And, in fact, I might say along that line, that certainly two banking groups in Nashville are doing group banking now. One has gone as far as Memphis.

Mr. SEIBERLING. Now, assuming that we should legislate to provide for branch banking in Federal reserve districts or some other

trade area, what regulation, if any, do you think should be put into this legislation in reference to permitting banks to put branches in cities, say, of 100,000 or more where they have ample financial facilities?

Mr. OTTLEY. In answer to that question, I would not think that it would be necessary to have any legislation along that line.

Now, it has been brought out by this committee that you do not want a monopoly, in which I thoroughly concur. Now, if you go and say that a bank in Atlanta should not go to Nashville or a bank in Nashville should not go to Atlanta, right then you are beginning to restrict the number of groups that could formulate and operate within these districts.

Now, what I would think is that common sense and good judgment would more or less take care of that and in the interest of the public you would not want to put that restriction in the legislation.

Mr. SEIBERLING. You would at least have five or six groups in your district because you have five or six centers of population?

Mr. OTTLEY. Yes, sir—as I outlined, Atlanta, Nashville, New Orleans, and certainly Birmingham and maybe one or two other cities are capable of organizing and operating groups.

Mr. SEIBERLING. Well, do you think it would be right to let your large bank, with its large resources and its long history, go into Nashville and, with a very small investment, put a bank in next door to a bank in Nashville that had made a large investment for the benefit of Nashville and had spent a great deal of money in advertising its business and had established a fine good will—permit you to come in with practically no investment at all and without any capital subscribed there and open a bank next door and advertise for deposits and do business? Do you think that would be fair to let other centers do the same thing in Atlanta next to your bank?

Mr. OTTLEY. Yes, sir; I think so, because those things take care of themselves. I would say this to you: Assuming you had branch banking to-day, I would certainly be very slow to advocate it—just what you are suggesting—for the reason that, for instance, we have valuable accounts from those banks in Nashville. The minute we do what you suggest, we will lose something that we already had.

Mr. SEIBERLING. You think we should at least make the establishment of branches in cities of that size subject to the approval of the Comptroller of the Currency?

Mr. OTTLEY. Oh, yes. In other words, I think if you take to-day, under the McFadden Act, national banks may establish branches in their cities in which the parent bank is located, but the establishment of those branches is subject to the comptroller's approval. I should like to compliment him on what he has done. The First National Bank made an application for a branch at a little place called Buckhead. There was a unit bank there that was doing business there for several years, just a little hole in the wall. It was not doing so well, but with the idea of being fair we offered to buy them, and another bank came along and offered to buy them. We had our application in for a straight-out branch, but one of our neighbors, pretty smart, offered more than we did and they got the bank and the comptroller denied our application for a branch in that community on the ground that this other bank had gone and bought that little bank and they were entitled to something. I just said, "I think you are all right," and let it go at that.

While no agreement or suggestion has ever been had between the banks in Atlanta that town is pretty well plastered with branches, but they are distributed, and they have not set down branches right alongside of each other.

Mr. SEIBERLING. If you had branch banking authorized, you would undoubtedly extend banking facilities to many small communities where they do not now have banking facilities—is that correct?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. That could be done possibly by having banking days in these communities where you would not have to keep an organization there all the time?

Mr. OTTLEY. Yes. At the present time, with the group banking, we have gone to the principal cities in the State of Georgia so far and all those cities have banking business enough to operate these institutions at a profit and certainly we do not feel under the present law any obligation to go to any particular town that will not pay a profit and, as I outlined in my paper, probably a million dollars has been employed in establishing separate unit banks, with their own presidents, cashers, and boards of directors with separate capital surplus and undivided profits and all.

I say roughly about a million dollars. You could take a branch, such as you have outlined there and, if necessary, keep it open one day, two days, or three days a week and if it was a branch, you would not have to have all the machinery necessary to operate a separate bank. So you could go into smaller towns on a very much more economical basis.

Mr. SEIBERLING. It would be possible in these western districts, where the distances are greater and even put a bank on a motor vehicle and run it into a small village and have a banking day or do banking for half a day and go on to the next village for half a day. I assume such a scheme as that would be feasible?

Mr. OTTLEY. If they worked at all, they would work for a day, but I can conceive it can be done very easily.

Mr. SEIBERLING. If you had a run on that bank, you could travel faster than the depositors, anyway?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. You stated yesterday you thought there ought to be more than one group in a Federal reserve district. I would like to have you briefly state your reasons for that.

Mr. OTTLEY. My reason for stating I thought there should be more than one group is that I suppose we are all human. I am certainly willing to admit I am human, and I think that banking is a semipublic business and that individual banks are semipublic institutions. When you have two banks or two groups you have got competition. I have had experience and very large acquaintance in country towns. Some one said something about belonging to the same church and belonging to the same club. Why, you go to a country bank and the general custom is that you find one bank on this corner and one on the other corner. One banker you will find is the leader of the Baptist Church and the other banker is the leader of the Methodist Church, and when it comes to politics, one group is in one political line-up and the other in the other and there is competition right straight through. I was brought up and born in that kind of atmosphere in Columbus, Miss., and it is my idea

when you have two groups you do have competition. I think you ought to have competition.

Mr. SEIBERLING. But if you go out into a small community where it will only support one bank and maybe only a half-time bank—a one day a week bank—you do have a monopoly in that community.

Mr. OTTLEY. I am glad you brought that up. I think that you gentlemen might be of the opinion that if you had branch banking and it happened that a community would be so small that you could only have a bank in there that operated one or two days a week—well, I think that would indicate that there was not enough business in that particular town to have two banks go in there, even though you had a dozen groups. I think it is sound business, just like all the banks in Atlanta have branches; they do not have branches at the same spot, but what is true in Atlanta in regard to those branches—and I am going to try to give you my idea about it—the same thing would be true in the country towns. That is to say, if there is a bank on this corner in Atlanta and a man likes to do business with either that bank or that branch manager, why, he is going to do it. If he does not like that bank or does not like that branch, even though he is next door to that, he can walk two or three blocks and do business with another bank.

Mr. SEIBERLING. That would not be true in the country town.

Mr. OTTLEY. All right. What I am going to say about the country is that I think it is entirely likely and probable. This sheet [exhibiting] represents a county and here are four or five small towns. For instance, if a group went in and set down a bank, with the approval of the comptroller, at this place [indicating] certainly I would not want to go and set down a bank in that same town. What I would like to do is to be represented in that county, probably at this point or that point [indicating]. So, with the roads you have to-day, you would still not have a monopoly because I think that the same thing would apply in the country that applies in the city; that you are likely to be represented in these neighborhoods and if they do not like this bank [indicating] they could go to that bank [indicating].

Mr. SEIBERLING. All these difficulties that we are speaking about could be entirely taken care of if we had proper and reasonable regulations?

Mr. OTTLEY. Yes, sir. And I would like to say about your regulations now at the present time, that a lot of those communities have not got anything, and as time goes on the number of these communities will increase.

I should like to put this thought across to you: That under the present situation, under unit banking, a great many places do not have any banks at all and under the unit system of banking they will not have anything and as time goes on they will have less and so, in my opinion, about your regulation, all the regulation I think you need about where these banks shall go and shall not go is the restriction as to trade areas and then make it necessary to get the approval of the Comptroller of the Currency, if it is a national bank, to establish branches.

Mr. SEIBERLING. And possibly regulation as to the maximum they can charge for the use of money?

Mr. OTTLEY. Yes; but I think you would want to let them go anywhere they wanted to go.

Mr. SEIBERLING. Your branch-banking scheme would make all deposits absolutely secure?

Mr. OTTLEY. Yes, sir. In other words, the man in the country town would have the same protection as the man in the city, and that has not been true under the unit system.

Mr. SEIBERLING. The only thing the man who does business with a bank is interested in is what you pay him on his deposits and the interest you charge on loans.

Mr. OTTLEY. The first interest is safety of his deposits.

Mr. SEIBERLING. Yes; that his deposits are safe.

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. The next interest is the amount you charge for the loans and the amount you pay on the deposits?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. The amount you charge him for the loans is really one of the most important things?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. What is your opinion as to whether there should be a limit on the interest you charge, if you are going to make a man a loan at all? What would be your idea as to the maximum of interest he should have to pay?

Mr. OTTLEY. I think 8 per cent.

Mr. SEIBERLING. What effect, if any, do the high call money rates in New York have with respect to the withdrawal of funds from your district to New York, if you know?

Mr. BRAND. You mean the sixth Federal reserve district?

Mr. SEIBERLING. The sixth Federal reserve district; yes.

Mr. OTTLEY. I can only speak from personal observation. Take the case of the First National Bank, why it is our policy to accommodate our customers first and then, if necessary for us to invest our money, secondly to make it earn something—it is a question of secondary reserve in the form of bonds, principally United States bonds, commercial paper or the call money market in New York.

Mr. SEIBERLING. Would you venture an estimate as to the amount of money that was withdrawn from banks in Atlanta and sent to New York during the high call money rate that would not otherwise have gone? Give us your best estimate, if you have one?

Mr. OTTLEY. I would not be able to make an intelligent estimate. For instance, we had a few customers, very limited in number, that carried large balances with us—larger than we could really expect or logically require under any form of what you might term the 20 per cent balance against lines, and so forth—that were not borrowing any money and had large surplus funds on hand and they asked us to lend some of their money. But that was very limited in numbers.

Mr. SEIBERLING. Now, I just want to ask one more question and I have done.

Mr. OTTLEY. Might I just say something further?

Mr. SEIBERLING. Yes.

Mr. OTTLEY. There is one question that I should like to amplify on. You asked about the rate of interest that should be charged.

Mr. SEIBERLING. The maximum rate.

Mr. OTTLEY. Yes; and I said 8 per cent. When you asked that question you asked it in connection with what the First National Bank would want to charge at home or in its branches. I said 8 per cent and I still repeat that.

But when it comes to the question of call money, I think that the question of the rate of interest on what are termed "street loans on call," on stock exchange collateral—when it comes to the rate on that, I think that is subject to great consideration, in that it is the theory of a great many people that the rate of interest has a tendency to curb the volume of trading and so-called speculation.

Now, that is a field in which I am not experienced, and I merely throw that out for your information; namely, that my 8 per cent rate of interest is for the class of business in which we deal.

Mr. SEIBERLING. Since you volunteer that statement, which is all right, I will have to ask you a few more questions.

Mr. OTTLEY. All right.

Mr. SEIBERLING. You were a former director of the Federal reserve bank?

Mr. OTTLEY. Yes, sir; I was a class A, group, 1 director for six years.

Mr. SEIBERLING. Of course, I suppose you know that the committee that fixes the call-money rate is connected with the New York Stock Exchange and is not responsible to anybody. Now, if we are going to have somebody fix the call-money rate, and if it is necessary to take that at higher than 8 per cent at times, do you not think that the power to do that should be put into the Federal Reserve Board or some responsible organization; responsible to someone?

Mr. OTTLEY. I think that is reasonable.

Mr. SEIBERLING. You do not consider it fair to the people of the country that four or five men should get together at 10 o'clock in the morning at the stock exchange at New York and raise the rate of interest they have to pay all over the United States without any responsibility to anybody, do you?

Mr. OTTLEY. Now, Judge, when you get into New York, as I said before, you are getting out of my territory, and the only thing I would like to say on that is that the question as to the rate of interest on that class of transaction is worthy of very careful consideration, and I would certainly be modest enough to think that you would be able to find people that are going to appear before you that have made a closer study along that line than I have and will make you a better witness.

Mr. SEIBERLING. There are two theories. One is that the high call-money rate retards speculation and another theory is that it brings a lot of money into New York and stimulates speculation. There are two theories, are there not?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. We have tried one, have we not?

Mr. OTTLEY. Yes.

Mr. SEIBERLING. And it has not been very satisfactory. It has been very disastrous. Do you not think it would be well for us to try the other to see how that works?

Mr. OTTLEY. Well, I come back and tell you that I am a commercial banker, and I do not consider myself a specialist, if I may say so, along that line.

Mr. SEIBERLING. Now, one more question—the one I intended to ask you awhile ago: The Comptroller of the Currency and Governor Young—I think I am putting it correctly—stated that the stock-

market crash was a substantial element which resulted in the industrial depression and unemployment and business chaos we have experienced since last October in this country. Secretary Lamont and Mr. Barnes last night at the meeting of the United States Chamber of Commerce blamed a great many of our troubles upon the stock-market crash.

Now, if a manipulation of that kind results in such great disaster to our country, then will you agree with me that we should find some solution and some remedy to stop it?

Mr. OTTLEY. I think that would be very desirable.

Mr. SEIBERLING. Have you a solution or a remedy?

Mr. OTTLEY. You ask me have I one?

Mr. SEIBERLING. Yes.

Mr. OTTLEY. I am certainly frank enough to tell you I have not. As a matter of fact, being a commercial banker and having been so all my life, I have always proceeded upon the theory that there were two things that were certain and only two things certain; one is death and the other is taxes and, holding that view, when it comes to speculation I am just not there. Of course my idea about securities is that they are for investment and not as a basis of speculation.

But you take the American people, for instance, among whom I have lived for some time; they ran to Florida and they started in Florida and they just pyramided up and people made fortunes on paper every day and all at once it was all over and, in their desire for excitement, the next thing you heard was people talking about the stock market. The stock market started up and then went down. It seems to me that must go on on the theory that some people advance that there is a sucker born every minute.

Mr. SEIBERLING. I understand that you agree with some of the theories that have been advanced here that the banking business is more of a quasi-public nature than any other business in the country?

Mr. OTTLEY. I do, sir.

Mr. SEIBERLING. More so than transportation or communication, telephone or telegraph, or any of those other quasi-public businesses?

Mr. OTTLEY. I think all of the companies you mentioned are semipublic.

Mr. SEIBERLING. You think the banking business is more of a quasi-public character than any of these businesses?

Mr. OTTLEY. Yes, sir; I do.

Mr. SEIBERLING. I take it your reason for that is that the people as a whole, down to the last individual, are vitally interested in the circulating medium of the country and that the banking business shall have that circulating medium available wherever they are entitled to it?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. Does that express it?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. I think that is all.

Mr. BRAND. May I go ahead? I want to be in the House at 12 o'clock if I can?

Mr. LUCE. Mrs. Pratt is next on the list.

Mrs. PRATT. I shall be glad to yield to Judge Brand.

Mr. BRAND. Mr. Ottley, how long were you a member of the Federal Reserve Board, in the Atlanta bank?

Mr. OTTLEY. I was six years a member of the Federal Reserve Bank of Atlanta.

Mr. BRAND. Did not you have any connection with the Government relative to the War Finance Corporation?

Mr. OTTLEY. Yes, sir; I was the chairman of the War Finance Corporation Agency for Georgia and Florida and organized that agency.

Mr. BRAND. How long have you been in the banking business?

Mr. OTTLEY. I have been in the banking business in Atlanta 40 years.

Mr. BRAND. And then practically the whole of your adult life, taking into consideration your banking connection in Missouri, has been in the banking business?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. Until the Committee on Banking and Currency has the opportunity to formulate legislation seeking to remedy existing evils in the banking laws, what recommendation or suggestion, if any, would you make in view of the constant taking over of new banks by group systems such as adopted by you and being adopted all over the United States?

Mr. OTTLEY. Judge, I would appreciate it if you would read that question again.

Mr. BRAND. Until this committee has an opportunity to formulate legislation—

Mr. OTTLEY. I get it now.

Mr. BRAND. In other words, should the Comptroller of the Currency be given authority to approve or disapprove taking over any other banks by its various systems of the country in the future?

Mr. OTTLEY. I see. I think that it is very important that some emergency legislation should be adopted or enacted to give the Comptroller of the Currency the opportunity to approve or disapprove of banks going into those groups until Congress has enacted some real form of legislation.

My reason for making that statement is that we are certainly going there and I imagine the majority of this committee, if not all of them, appreciate the evils and dangers of the unit system, particularly in the rural districts, existing at the present time and we are going without any legislation. In fact, have already made a long step from unit banking to group banking. I think it is important that, until definite and permanent legislation has been enacted, there should be strict supervision and that the consent and approval of the Comptroller of the Currency must be obtained by banks entering groups until that time.

Mr. BRAND. Before these groups take over any other bank?

Mr. OTTLEY. Yes, sir.

Mr. LETTS. Will you pardon me a minute, because I think there is something that should be cleared up right in that connection.

Mr. BRAND. Yes.

Mr. LETTS. Since the holding companies are not banking institutions and not subject to control, how can that be accomplished?

Mr. BRAND. Suggest emergency legislation for the present to enact some legislation now until we can formulate and pass permanent legislation.

Mr. LETTS. But that is in respect of corporations not banking institutions.

Mr. BRAND. If it is in the business of banking—taking over banks into groups—Congress has this authority, I should think.

Mr. LETTS. It is not a bank but a holding company to hold the stock of banks.

Mr. BRAND. That is one way of getting around seeking the approval or disapproval of the Comptroller of the Currency, if Congress can give him such authority.

Mr. LETTS. I do not want to take your time, but I think that is an important element.

Mr. BRAND. What is your criticism of the suggestion?

Mr. OTTLEY. My answer was based on the thought that that was desirable, but not being a lawyer, I do not know whether that can be done or not. But I do think it is desirable.

Mr. BRAND. I can not understand, Judge Letts, why Congress can not pass any legislation upon the subject it wants to pass.

Mr. LETTS. With respect to corporations holding stocks of banks, doing business in various States?

Mr. BRAND. Yes; if it is a banking institution.

Mr. LETTS. But you could not legislate for and control a Delaware corporation.

Mr. BRAND. If it is a banking institution, taking over one bank after another in different areas, I should think Congress would have jurisdiction over the question as to how many shall be taken over, where located, and when they shall terminate taking over. Otherwise, if you leave it to these groups, in 10 years the group-banking system will practically control the banking institutions of the United States.

Mr. LETTS. The point I have in mind is this, that when the stock of a national bank is held by individuals scattered throughout the country the Comptroller of the Currency nor anyone else has any control over its sale. An individual holder of that stock can transfer his shares to a holding company as freely as he might to an individual. That is the thought I have in mind.

Mr. BRAND. I see.

Mr. LETTS. But I do not want to take up your time, Judge.

Mr. BRAND. I have no objection to it, except I do want to get to the House before it goes into the Committee of the Whole.

I will ask you this question: Do you think that the Comptroller of the Currency should have any authority over the constant mergers of these great banks going on throughout the United States at the present time?

Mr. OTTLEY. I do; in fact I understand he has that authority now.

Mr. BRAND. He can approve or disapprove, but the question is, should he be given authority, if he approves, to place some limitations in regard to the mergers of these big corporations or holding companies?

Mr. OTTLEY. As I understand it now, he has authority to approve or disapprove and if he does not approve, it can not be done.

Mr. BRAND. Of course not, but suppose he wants to approve and does not want to disapprove, but he thinks some limitation ought to be conditional upon his approval or that the approval should be conditioned upon certain reservations or limitations. Do you not

think it advisable that Congress should vest him with that additional authority?

Mr. OTTLEY. If that is needed, I see no objection to that. I was of the opinion that he had all the necessary authority needed.

Mr. BRAND. You answered, I understood, that some emergency legislation should be enacted by Congress giving him authority to prevent these groups taking over any other banks until permanent legislation may be enacted?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. You still adhere to that opinion?

Mr. OTTLEY. I do.

Mr. BRAND. Now, I want to ask you in regard to this part of your statement made yesterday:

If, in view of the present situation, national banks in Atlanta were permitted, for example, with the approval of the Comptroller of the Currency, to put branches in the small towns in the agricultural sections, the First National Bank of Atlanta could, in my opinion, effectively establish a safe and sound system of banking for those people.

How can you do that in Georgia where they have no State branch banking law?

Mr. OTTLEY. You could not until that law was changed.

Mr. BRAND. I did not think so.

Mr. OTTLEY. Absolutely, but it is, my opinion that the situation in Georgia has very materially changed in the last year or two; certainly a straw showing which way the wind blows occurred when, at the last session of the legislature, they modified the Georgia law in regard to branches and made it practically in line with the McFadden Act.

Mr. BRAND. But they repealed the Georgia law authorizing branch banking.

Mr. OTTLEY. That was done several years ago. Then, until the last session of the legislature, for the last three or four years, you have not been able to establish a branch even in the city in which the bank was located.

Mr. BRAND. Why did they repeal the State branch banking law?

Mr. OTTLEY. Judge, that is something I am not able to tell you. As a matter of fact I sat up there until—well, all night the last night listening to what was going on and after practically everybody had gone home to bed, they hitched that change on to some bill, and it went through.

Mr. BRAND. Nobody knew anything about it?

Mr. OTTLEY. No, sir.

Mr. BRAND. A member of the legislature from my county and the State senator did not know anything about it and I have never been able to find out who was the author of it.

Mr. OTTLEY. Personally, I was never able to learn who it was done by, or what the motive was.

Mr. BRAND. I always thought it was some of the banks in Atlanta that brought that about.

Mr. OTTLEY. I do not know that.

Mr. WINGO. Does my friend from Georgia cite that as an unusual legislative experience?

Mr. BRAND. No.

Mr. OTTLEY. In regard to the repeal by the legislature last year, the question was duly considered and I was approached last session in regard to branch banking and it was my advice and opinion that no action be taken on it at the last session of the legislature for the reason that no bank could be a national bank or a member of the Federal reserve system and establish branches. I felt that the main or larger banks that were in business and qualified and able to establish branches, such as we are discussing here, would not and could not afford to retire from the national banking system or from the Federal reserve system; so that it meant at that time, if anybody went into the branch-banking business in Georgia, it would have to be some concern outside of the national banking system or outside of the Federal reserve system. As I stated, I do not know of any public prejudice in Georgia against branch banking and if Congress should change this law, authorizing branch banking, I do not apprehend there would be any trouble about Georgia following.

Mr. BRAND. In the formation of your group, did the Comptroller of the Currency have to give his approval to your bank to take over the member banks?

Mr. OTTLEY. He did not.

Mr. BRAND. He had nothing to do with it, as you construed your rights?

Mr. OTTLEY. No, sir.

Mr. BRAND. Do you not think he ought to have something to do with that—some authority?

Mr. OTTLEY. I think it is quite in order.

Mr. BRAND. I want to ask you relative to another portion of your statement, appearing on page 2, which has been quoted in the Washington Post and United States Daily. These papers said that John K. Ottley of Atlanta appeared before the Banking and Currency Committee and stated "that the system of banking with which the rural population had to deal has failed," referring to the State of Georgia.

This is what you said:

Public confidence in the small independent bank has been greatly shaken in our section of the country. The system of banking with which the rural population had to deal has failed. This has added greatly to the burden of the farmer and the small business man.

Now, do you stand by that statement, that public confidence has been destroyed, as a rule, in all small independent banks in Georgia?

Mr. OTTLEY. Not all. I say that as a system, the public confidence has been shaken, due to the large number of failures.

Mr. BRAND. I agree with you that due to so many bank failures confidence in banks has been shaken. But you do not mean to charge or assert that there is no small independent bank doing business in Georgia in which the public has confidence?

Mr. OTTLEY. No, sir; I do not.

Mr. BRAND. There are many of them, are there not?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. And many of them solvent?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. And many of them solvent notwithstanding all the trouble we have had during the lean and hard years since the deflation policy of 1920?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. You say that "The system of banking with which the rural population had to deal has failed." I do not agree with you about that altogether.

Mr. OTTLEY. I would like to say this: Of course, there are exceptions to the rule, but as a system, I think that public confidence has been shaken and I guess you and I agree on that—I mean as a system.

Mr. BRAND. Do you mean to include in your answer the independent unit system?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. I know what you say is true as to the Witham's bank system and the banks included in the Manley system, who was sentenced to the penitentiary a short time ago.

Mr. OTTLEY. Yes.

Mr. BRAND. I will state why I do not agree with your sentence that "The system of banking with which the rural population has had to deal has failed." I know of some sections in Georgia where, if it were not for these independent unit banks, the farmers could not borrow money to make crops with. You know that, do you not?

Mr. OTTLEY. At the present time, yes.

Mr. BRAND. Do any of your member banks loan money to farmers on real estate?

Mr. OTTLEY. I do not think so.

Mr. BRAND. Is there a single bank in Atlanta that lends any money to farmers in order to make crops?

Mr. OTTLEY. I think there are some loans; very few, but there are some to farmers.

Mr. BRAND. I am talking about loans to make crops with.

Mr. OTTLEY. They make them seasonal loans, yes.

Mr. BRAND. Do your banks make them in Atlanta?

Mr. OTTLEY. Make some.

Mr. BRAND. What sort of security do you require?

Mr. OTTLEY. It depends altogether on the man. In other words, with the majority of loans that we make of that character, and we make very few of them, we lend the money to the man on his note, plain note.

Mr. BRAND. Take a farmer who owns no land and no property except livestock to pledge as security and he wants to borrow money to make a crop; have you any of that class of loans?

Mr. OTTLEY. No, sir; we have not.

Mr. BRAND. You would not make them, would you?

Mr. OTTLEY. We would not make them to-day.

Mr. BRAND. Do you know of any bank in Atlanta, including your banks, that would make a loan to a farmer and take as security a mortgage on the crop?

Mr. OTTLEY. You are asking a hypothetical question.

Mr. BRAND. No; a very practical question.

Here is what I want to know: I am very much interested in finding out whether your bank in Atlanta, or any other Atlanta bank, loans money to farmers to make crops with and takes a mortgage on their crops to secure it, with only that security?

Mr. OTTLEY. No.

Mr. BRAND. You do not do it, do you?

Mr. OTTLEY. No.

Mr. BRAND. Do you know of any bank in Macon that does it?

Mr. OTTLEY. I can not answer that.

Mr. BRAND. Does your bank in Macon do it?

Mr. OTTLEY. I would say no.

Mr. BRAND. Do you know of any bank in Athens that does it?

Mr. OTTLEY. I could not tell you.

Mr. BRAND. I know that they do not.

Now, what is going to become of the farmers of the country who have no means of borrowing money except through these small independent unit banks on crop mortgages? Athens does not do it, Atlanta does not, and your bank in Macon does not. How can they make a crop without getting money on that sort of security?

Mr. OTTLEY. Well, I would not attempt in this hearing to answer that question, Judge.

Mr. BRAND. You are not making that sort of loan?

Mr. OTTLEY. As a matter of fact, at the present time we are not doing business directly in those smaller communities, except through the banks themselves.

Mr. BRAND. Yes, I know. Suppose, though, that a bank in a small town or city does not want to borrow any money from you or from any other bank, and the directors of such a bank are willing to lend to farmers money with which to make their crops and to accept a crop mortgage as security, do you regard that sort of bank as "a failure," having in mind your statement that "The system of banking with which the rural population had to do has failed"?

Mr. OTTLEY. Simply because they do that does not go to their discredit, and, as a matter of fact, the First National Bank lends to country banks on collateral—I mean that frequently that constitutes a good part of the collateral.

Mr. BRAND. What benefit is your bank and the banks in Macon and Athens to a farmer in Gwinnett County, for instance, if these banks decline to loan money to him for the purpose of making a crop with crop mortgages as security?

Mr. OTTLEY. I will tell you, none, at the present time.

Mr. BRAND. If a bank in Gwinnett County, for instance, does make loans like that to farmers in order to enable them to make a crop, with only crop mortgages as security, is not the Gwinnett bank rendering a valuable service to the farmer?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. Then that kind of a bank has not failed to serve the rural community, has it?

Mr. OTTLEY. I still say this: Suppose that a bank does lend on crop mortgages; my thought is that the first requisite of a bank is to be a safe place in which people may deposit money.

Mr. BRAND. I agree with you about that.

Mr. OTTLEY. All right. Now, I say, to come back to the point in that, that public confidence, in my opinion, has been shaken in the small unit bank by the failure of so large a number of them.

Mr. BRAND. I agree with you about that.

Mr. OTTLEY. All right. When I say that I think that the system has failed, here is what I mean by that, and we can either agree or disagree on a conclusion, that so many banks, particularly in our own State, bank after bank have failed in the small rural communities, and no banks have stepped in there to take their place, and you know

that both in number and in assets they have from year to year decreased. When I see any system that is on the decline, I call that a failure, when it does not stay level or go up.

Mr. BRAND. You stated a while ago, and I agree with you about that, that a banking institution is somewhat of a public-service institution. Suppose that none of the banks in a great county like Gwinnett—and I use this city only as an illustration—should lend to farmers who have nothing to pledge except a crop mortgage, what would become of the people of that county?

Mr. OTTLEY. The predicament of the farmer, in my humble judgment, on what little I know about it, is not due to the inability to borrow money. In the first place, he has been able to borrow money on his land from these land banks; he has been able to borrow money from the intermediate credit banks; and he has been able to borrow money from the country banks. The question of borrowing it is one thing, but paying it back is something else.

Mr. BRAND. You know that the Federal joint-stock land bank in Atlanta does not lend any money to farmers in order to make a crop?

Mr. OTTLEY. I said on their land.

Mr. BRAND. They are not now making any loans on land, are they? I refer to your joint-stock land bank in Atlanta. They have practically quit business.

Mr. OTTLEY. I think at the moment they have.

Mr. BRAND. Is it not true that the intermediate credit bank at Columbia, S. C., has practically quit making loans to farmers on land?

Mr. OTTLEY. I have no information to that effect.

Mr. BRAND. I can state to the witness that that is the fact so far as my section of the State is concerned.

Have you any agricultural credit corporation in the city of Atlanta?

Mr. OTTLEY. No.

Mr. BRAND. There is none that I know of within 100 miles of Athens except the one in Athens, and it failed at one time at least—because I personally lost \$400 in cash on account of its failure in trying to help its farms to obtain money through it. Many of the farmers in my section of the State are unable to cultivate lands and make crops unless they can borrow money on their stock and crop mortgages, and I have been wondering and worrying about what is going to become of the farmers of the country who are in that condition.

I do not mean by what I have said or asked that I am criticizing the policy of your banks in Atlanta or anywhere else.

Mr. OTTLEY. I understand that.

Mr. BRAND. I know that we are forced to lend money over in Gwinnett County on crop mortgages. We loaned over \$30,000 there last year, and during the five weeks of continuous rain last fall I slept but little at night worrying over the situation. But in the end we collected it all except around \$300. Our directors have been considering the proposition to quit making this class of loans, but when we do quit, what in the name of common sense is going to become of that class of people? Did you ever think about a situation like that?

Mr. OTTLEY. Yes, sir; that is a question.

Mr. BRAND. That is the real situation in my old home county.

Mr. OTTLEY. I have great confidence in your judgment and experience, and in your knowledge of the banking business, as well as

a very high opinion of you personally, as you know, and therefore take the liberty of asking this question, whether or not in your opinion it is to the best interests of the public generally and of the business interests of the country at large that these big banks in all large centers, including Atlanta, should continue to merge and consolidate with each other?

Mr. OTTLEY. I think that, with business growing larger all the time—and banks are but the servants of business—that mergers and consolidations have been all right.

Mr. BRAND. But suppose that all of them are doing like the Atlanta banks do, decline to lend to farmers throughout the different sections of the country, who are unable to borrow upon any security except liens upon their livestock and crops?

Mr. OTTLEY. I do not think the question of consolidations has any bearing on that whatever. In other words, if you take the banks in Atlanta, they are too far removed to deal with the farmer in the location of their main offices, and if you have a large number of banks or a small number of banks, that has no bearing on the question, in my opinion, that you propound.

Mr. BRAND. Do you not think that the merger or consolidation of the large banks of the great centers is calculated to create, or tends to create, a monopoly of capital and credit throughout the country?

Mr. OTTLEY. No, sir; I do not.

Mr. BRAND. You do not think it is likely to have that effect?

Mr. OTTLEY. I do not think so, because you do not have a monopoly as long as you have competition, and if there is competition anywhere to-day, believe me, it is in banking.

Mr. BRAND. Let us come to that competition for a minute. You said you were not in favor of one group in each of the Federal bank areas, but that there ought to be at least two?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. Well, now, suppose that those two should get together and agree upon a rate of interest that they will pay on daily balances, for instance, which might have the effect of reducing the rate from $3\frac{1}{2}$ to $2\frac{1}{2}$ per cent; would not that be against the interests of the people generally, the rank and file of the public?

Mr. OTTLEY. You are asking me that question as to the future?

Mr. BRAND. Yes. Suppose that these two groups should get together and agree that they would not pay $3\frac{1}{2}$ per cent any longer, but reduce the rate to $2\frac{1}{2}$ per cent.

Mr. OTTLEY. In the past to a large extent, the question of interest paid on deposits, savings or otherwise, has been influenced more or less by the demand for money. You take, for instance, at the present time; the rates that banks can obtain on loans to-day and the spread between that and $3\frac{1}{2}$ per cent leaves very little profit. Now, if the rate should go down with or without any agreement, you would have this situation, that the people that have money to deposit would go elsewhere, and that applies also to the people who may want to borrow money. They are not compelled to do business with any particular bank in any particular town; they are not compelled to do business with any particular bank in any particular State, and to illustrate that point, there are banks all the way from New York to and through the surrounding States that are canvassing Georgia for business right now, particularly for deposits as well as loans.

Mr. BRAND. Mr. Ottley, the question I asked is: If there is not a probability that if there were only two groups in the sixth Federal reserve district, that the big bankers would get together and agree that they are losing money in paying $3\frac{1}{2}$ per cent on daily balances and that they will put it down to 2 or $2\frac{1}{2}$ per cent?

Mr. OTTLEY. In answer to that question, I would say that if they are losing money, they ought to do it, and what I would like to say to you, and I do not mean to say it in a selfish point of view, is this—

Mr. BRAND. Then they would do it if they were losing money?

Mr. OTTLEY. Yes, sir; and I would just like to say this, that the Federal Reserve Board has very valuable statistics on file that it would be greatly to the advantage of this committee to see, if you have not already done so, that show the gross profits of the banks in all the 12 Federal reserve districts that are members of the Federal reserve system, and which also shows what happens to those profits. A bank is, as you say, a semipublic institution, and it ought to make money.

Mr. BRAND. But as long as there is severe competition between two banks or two large groups there wont be any reduction in the rate of interest on daily balances, and I come back to my first question, which is this: What would prevent them from getting together and agreeing that they will increase the rate of interest charged to their customer bank.

Mr. OTTLEY. Nothing would prevent it any more than if they did it now where you have two banks in Atlanta.

Mr. BRAND. Let us suppose that there were only two groups in the sixth Federal reserve district. Could not the head men, the master minds of the two institutions, get together and say that instead of lending money to their correspondents at 6 per cent, they will charge them 7 and 8 per cent?

Mr. OTTLEY. Do you know what would happen if they did it, if they were foolish enough to do that when it was not worth it? There are banks in Nashville and Chattanooga and Birmingham, and immediately surrounding us, that are ready to lend money, and there are banks in New York, Boston, and Chicago that have representatives that are continually traveling this whole district over, so that if a bank had a rate that was not in line with the market, the customer would borrow from somebody else and that bank would perhaps lose a customer, and what you have to do in the end is to credit banks and bankers with the same desire to please their customers as exists in other lines of business.

For example, if a country merchant, when a man came in there who had been paying 10 cents for an article, attempted arbitrarily to charge that customer 20 cents, what would happen?

Mr. BRAND. But suppose all the merchants agreed to charge 20 cents?

Mr. OTTLEY. Then he would go somewhere else and get it.

Mr. BRAND. He might not have any credit somewhere else.

I do not say that would happen if you had two big groups in the sixth Federal reserve district, but I do say that I do not see any reason why they could not get together and agree on the rate of interest they would pay on daily balances and the rate they would charge their correspondents who want to borrow money.

Mr. OTTLEY. My whole point is that I am against one group, and I think that in the interests of the public as well as of the banks concerned they should have a minimum of two.

Mr. BRAND. I agree with you fully.

Mr. OTTLEY. But I do not think it would ever get down to two.

Mr. BRAND. What difference is there in the matter of practice and procedure in organizing the group banks in your system and in organizing the systems in Buffalo, Detroit, Minneapolis, and St. Paul, for instance? Is it practically the same?

Mr. OTTLEY. I think it is more or less the same. Now, in the Northwest Bancorporation, as I understand it, they have a master holding company. You have had their testimony; but, as I understand it, they exchanged stock in their company for the stocks in the banks. As I have stated in my opening statement, the stocks that we have acquired in the various banks we have, have been bought for cash.

Mr. BRAND. But you have a controlling interest in all of those banks?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. And you elect all of the directors, or there is none elected except by the approval of your parent bank?

Mr. OTTLEY. As a matter of fact we have a controlling interest, but so far as the actual practice is concerned, from the time that we acquired an interest in these banks until the annual meeting, we never added a director and we never substracted a director, and the only change we have ever made has been the addition of one officer from the First National Bank—just added one officer to their board.

Mr. BRAND. In other words, you have the authority to say who shall be elected or not elected, if you see fit to exercise that authority?

Mr. OTTLEY. Well, we have the authority; and when it comes to a question of sound business, we have gone into these towns and we have done everything to maintain that as a separate unit to go right ahead simply to supplement the management that was already there.

Mr. BRAND. What was the real reason that caused you and your people to form this group that you have there in Georgia?

Mr. OTTLEY. Our reason was, in a sense, following the trend of the times.

Mr. BRAND. The same reasoning has moved you that is moving these other great groups throughout the country?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. Is it your purpose to continue to buy up or to take in other banks which are good banks and making money in the future as you have done in the past?

Mr. OTTLEY. I should think so.

Mr. BRAND. How many stockholders did the Fourth National Bank have before you merged it with the First National Bank? Do you recall?

Mr. OTTLEY. Not identically. In round numbers, about 500.

Mr. BRAND. How many did the Atlanta-Lowrey have?

Mr. OTTLEY. Something over 700.

Mr. BRAND. Have you increased the number of stockholders over what you had and the Lowrey crowd had before the merger?

Mr. OTTLEY. Some; yes.

Mr. BRAND. I wish you would just explain briefly—and this is about the only question I want to ask—the history of that branch bank at Decatur. Decatur is about 6 miles from Atlanta. When was that established?

Mr. OTTLEY. Between eight and nine years ago.

Mr. BRAND. Was that established under the State branch banking law at that time?

Mr. OTTLEY. Yes, sir.

Mr. BRAND. It was in existence at that time?

Mr. OTTLEY. Yes; there was a little struggling bank down there at Decatur. Decatur, as you gentlemen know, is about 6 or 7 miles from Atlanta, in a separate county and a separately incorporated town. The bank at that time had about \$150,000 of deposits, and when we started to establish these branches we wanted a branch down at Decatur. We thought that it offered an opportunity, in the first place, and, second, we wanted to do it for the benefit of the experience that we would get in the establishment of a branch there. So we went down to Decatur and negotiated with the president and the board of directors about the purchase of that bank, and we bought it at a price that was agreeable both to ourselves as well as to the people who owned the stock, and we converted that into a branch.

As I say, it had \$150,000 in deposits, and was a little hole in the wall, not as big as this room, but within a short time it outgrew that and we bought a suitable lot on the square there and put up a first-class building.

Mr. BRAND. A fine building.

Mr. OTTLEY. And that has gradually developed from \$150,000 in deposits to where they have now more than \$1,000,000.

Mr. BRAND. That is what I wanted to know about.

Mr. OTTLEY. That is, as you know, right on the edge of the country.

Mr. BRAND. What would you advise in reference to Oglethorpe County, in Georgia, just as an illustration, which has not a bank in it? Would you advise the people to go into branch banking or group banking or chain banking?

Mr. OTTLEY. I would not advise chain banking, certainly.

Mr. BRAND. Well, between group banking and branch banking, if we had a branch banking law in Georgia, and it probably will be enacted later, which would be to their best interest, to join your group or to establish a branch bank?

Mr. OTTLEY. I think the answer would be that they would be best served and they would come nearer getting a branch of a bank than they would become a member of some group. I would have to really know more about it than I know now, but it would have to offer sufficient profit to warrant a bank putting an independent member of a group in.

Mr. BRAND. In other words, under existing circumstances you would prefer the branch bank if it could be established?

Mr. OTTLEY. I think they would come nearer getting a branch than they would a bank in any other way.

Mr. BRAND. That is the next question I wanted to ask you.

The CHAIRMAN. Judge Brand, will you yield?

Mr. BRAND. Yes.

The CHAIRMAN. Mrs. Pratt wants to ask two or three questions, as she has to leave.

Mrs. PRATT. Mr. Chairman and Mr. Ottley, I just want to ask a question in connection with the questions that Judge Brand was asking you.

You would have no objection to handling the farmers' business or to giving loans to farmers, would you?

Mr. OTTLEY. Certainly have no prejudice against dealing with the farmers, where they were on the same basis that we deal with the merchant.

Mrs. PRATT. If they had sufficiently good credit, they would be entitled to the same consideration as anybody else?

Mr. OTTLEY. Yes.

Mrs. PRATT. It has been brought out here in nearly all of these hearings, Mr. Ottley—and I do not know whether the people who made the statements felt that the condition was not normal or was not exactly the right thing—that large sums of money are invested in New York by the bankers, or that credit is drawn from the local banks to the New York market, but is it not true that all solvent banks must have and should have a large amount of easily available credit against their deposits, and is it not normal and natural that they should go to the largest market, where there is a more diversified type of credit? Do you see anywhere any disadvantage in that?

Mr. OTTLEY. In answer to your question, I will say that I think there are distinctly two sides to that question. When it comes to what might be termed the 'interior bank, and speaking for the First National Bank, of which I am president, we have found that a very great convenience. Our first service is to our customers, but in view of the fact that the Federal reserve bank does not pay any interest, either on our reserve or any surplus over and above our reserve, it then becomes a question, after we have first served our own customers, as to what we are going to do with that money to make it, first, safe, and, second, easily available, and, to add one more consideration, to earn the best return, and if it is commercial paper, we buy commercial paper; if it is Government bonds, we buy Government bonds. Money seeks its level just the same as water, and if the call money market pays us better than to purchase commercial paper, that is where we go.

Under the practice of the First National Bank for a number of years, we have divided, and our reports will show it, our surplus money in practically three ways; that is to say, practically one-third on the call market, practically one-third in Government bonds and certain stocks, possibly, and practically one-third in commercial paper.

Mrs. PRATT. You feel that the day of the small unit bank is really passing, do you?

Mr. OTTLEY. Yes; and I so stated in my statement yesterday. If more unit banks are going out than coming in, I think that shows the way the wind is blowing.

Mrs. PRATT. Do you feel that if a system of branch banking should be authorized, there should be any means provided to prevent a branch bank being established in a community where that would come in competition with an existing unit bank that was giving fair service?

Mr. OTTLEY. Personally I do not.

Mrs. PRATT. You think that there should not be a branch bank established?

Mr. OTTLEY. No; you asked me if there should be legislation to prevent that.

Mrs. PRATT. Yes.

Mr. OTTLEY. The whole idea that has been prevalent in this committee is that you do not want—

Mrs. PRATT. Monopoly.

Mr. OTTLEY. Monopoly. You can not eat your cake and have it, too, and if you go ahead and say that there should be branch banking and then legislate that you can not do this, or that, or put a bank here, the result will be that you will be giving that local bank the very thing you have tried to legislate against, a monopoly.

Mrs. PRATT. Would it not be true that a branch bank, with its larger resources back of it, could drive a unit bank out of existence even though that unit bank had been giving a fair service? Is it not pretty hard for the unit bank to stand up under the competition of a branch bank?

Mr. OTTLEY. Mrs. Pratt, I would like to say that probably there is no business that is more dependent on public favor than banking, and if a bank from the outside went in and it did not meet with popular favor, or did not have the indorsement of the community, it could not do business.

I can illustrate that point right now by referring to the question that Judge Brand asked me about Decatur. There was another bank in Decatur at the time we bought this little struggling bank down there, and that bank has gone along and while this branch started with about \$150,000 in deposits and has increased those deposits to \$1,000,000, the other bank at that time had in round figures \$1,000,000 and in round figures it has \$1,000,000 now. That is to say, we have brought business into the town that was not there before, not that we have taken it away from that bank.

That is a practical illustration of what we were discussing.

Mrs. PRATT. The point I was leading up to is this: Would you be in favor of restraining large metropolitan banks in establishing branches in the smaller communities?

Mr. OTTLEY. The point about it is that I think that you would be giving the smaller communities something that they do not have now and it is in their interest.

Mrs. PRATT. Just one more question, and that is with regard to the holding company. In your opinion, would it be wise or desirable to have those holding companies subject to the same supervision and examination that the national and State banks have?

Mr. OTTLEY. It would.

Mrs. PRATT. I think that is all, Mr. Chairman.

Mr. BRAND. I will finish. I have only one or two other questions to propound, Mr. Chairman.

Mr. Ottley, in your smaller banks, what is the average salary you pay your clerical force?

Mr. OTTLEY. You mean those banks outside of Atlanta?

Mr. BRAND. Yes.

Mr. OTTLEY. We have not any that small.

Mr. BRAND. What is the smallest?

Mr. OTTLEY. Well, the smallest in capital and surplus I think is \$362,000. That is the smallest one we have.

Mr. BRAND. You have one here at Columbus, about \$2,000,000.

Mr. OTTLEY. Yes; that is the smallest one, and that is about \$2,000,000.

Mr. BRAND. Mr. Luce, you asked a question yesterday, I believe, and I want to come back to it while you are present.

In Mr. Ottley's statement, this occurs:

The question may be raised whether, since branch banking beyond city limits is prohibited by the McFadden Act, the First National Bank is not doing indirectly what is unlawful to be done directly. My answer is that the law permits us to do exactly what we are doing. It is done under the sanction of the law.

I think that he discussed that question with you, but there is one thing I did not understand, and I am only asking for information. Under what law was it, State or Federal, that you have formed your group of banks down there?

Mr. OTTLEY. Under State law.

Mr. BRAND. Were all of these banks State banks, or were some of them national banks, that you took over?

Mr. OTTLEY. No, sir. The holding company is organized under the laws of the State of Georgia, and the charter was granted by the superior court.

Mr. BRAND. The courts have no jurisdiction over national banks. And I can understand how you could take State banks over.

Mr. OTTLEY. All in the world that that company has done is what any member sitting around this table could do; that is to say, they have just simply gone out and bought a certain amount of stock from the individual shareholders that wanted to sell it.

Mr. BRAND. I wanted you to amplify your statement, because I did not really understand it.

Mr. OTTLEY. Yes. I would like to say this in connection with our buying of this stock, that first in each case we went to the presidents of the banks and said, "You have a bank of which we think well"—and I will tell you another thing, that all these banks had been correspondents, corresponding banks for years, and were good friends, like you and I are, and we went to the presidents of those banks and said, "We think this is the trend of the times and we would like to buy a majority of your stock. We are not looking for any jobs; all that we are interested in and expect to make out of it is a fair return and we want to buy your stock and pay what it is worth, and with our system and cooperation we think that we can make it a better and larger bank and help you to make more money than you are making at the present time."

Mr. BRAND. I think that is very fine. What per cent, as a rule, does your parent bank own in these banks which you have taken over—what per cent of the stock?

Mr. OTTLEY. We own in excess of 50 per cent.

Mr. BRAND. I know you do. You have a majority control, but how much over 50 per cent, as a rule?

Mr. OTTLEY. We own from 50.16 per cent to as high as 78 per cent. What we have done is this: We have gone to the president and to the board of directors and said, "Now, gentlemen, we want a minimum of 50 per cent and we are willing to buy as much more as anybody wants to sell," and in each case we made an offer to the shareholders to sell any portion of the stock that they wanted to sell, and, as I say, the smallest one is 50.16 per cent; the other is 78.21 per cent, as I remember it.

Mr. BRAND. I just want to state, for the benefit of those present, that when I said "We" a while ago in referring to the practice of our

bank lending to farmers on crop mortgages, I was referring to the Brand Banking Co., which has been a correspondent of Mr. Ottley's bank ever since it was organized. We have kept more deposits in his bank than in any other bank in Atlanta or elsewhere.

You know that to be a fact.

Mr. OTTLEY. That is a relationship, I would just like to take the opportunity to say, that we have enjoyed through these many years.

Mr. BRAND. I am much obliged; it has been mutual.

The CHAIRMAN. In connection with the questions that Mrs. Pratt asked you a few moments ago as to the concentration of banking resources in the city of New York, I want to ask you one or two questions. Some money is deposited, according to the custom of country banks, with their correspondent banks; but during the last year or two an accumulation of the country's credit has gone into brokers' loans and has been invested in the market. It has been the practice of these banks to loan money for their customers, through the rules of the stock exchange, by letting them invest in brokers' loans, and this also may be a part of the clearing-house rules. In acting for their correspondents in that respect, the New York banks have been making a charge of one-half of 1 per cent when they loaned money for their customers in the market.

I would like to ask you if in your opinion and with your knowledge of the national banking laws, this is a legal procedure? Have the New York national banks the legal right to act in that capacity?

Mr. OTTLEY. Mr. McFadden, I am not able to answer that question.

The CHAIRMAN. Inasmuch as the comptroller happens to be here, I am going to ask him if he will tell us whether it is legal under the national banking law, for the New York national banks, as agents for country banks as lenders, to act in that capacity in regard to financing brokers' loans?

Mr. POLE. I have heard of no legal objection to it, Mr. Chairman. I would hardly be qualified to answer that question, however.

The CHAIRMAN. The matter has been called to my attention by an ex-national bank examiner, and he makes the definite statement that the national banking law does not permit national banks to act in that capacity. It is an interesting question.

Mr. POLE. Yes.

The CHAIRMAN. And I wanted to raise it.

Mr. POLE. It is an interesting question.

The CHAIRMAN. It is a matter that should be definitely known, particularly by your office.

Mr. POLE. Yes, indeed; very interesting.

The CHAIRMAN. I am going to ask you, Mr. Pole, if you will give some deliberation to that question and write me what the opinion of your office is as regards national banks acting in that capacity.

Mr. POLE. I shall be very glad to do that.

The CHAIRMAN. We only have 10 minutes now until our adjourning time, and I am wondering whether you will be back this afternoon, Mr. Ottley.

Mr. BUSBY. I just have a few questions, and I can finish in 10 minutes.

The CHAIRMAN. Very well.

Mr. BUSBY. Mr. Seiberling has a question which he asked me to ask, and I would yield to him.

Mr. SEIBERLING. The question was this: If you had branch banking in the sixth Federal reserve district, do you think that that would increase the financial importance of the centers of that district to such an extent that in all probability the district would do substantially all of the financing required by industry and corporations in that district?

Mr. OTTLEY. I think it would very largely increase and enhance the ability of the district to do its own financing. In short, my conception of it is that it would have a tendency along the lines that followed the establishment of the Federal reserve system; that is to say, that when reserves were required by law to be carried there instead of being carried somewhere else, it made those districts, particularly the sixth Federal district, very much more self-contained from a financial point of view than it ever was before, and I think along the same line——

Mr. SEIBERLING. You think it would have the effect of decentralizing to some extent money and credits and distributing them to the various Federal reserve districts?

Mr. OTTLEY. Yes, sir.

Mr. SEIBERLING. That is all.

Mr. BUSBY. Business throughout the country is combining and coming together in larger units in all of the several spheres of business activity, is it not?

Mr. OTTLEY. It is, sir.

Mr. BUSBY. In other words, take a corporation such as the one known as General Foods. That is a holding company that deals with all types and kinds of business activities that are in line with the supplying of food to the people of the Nation. There is the Steel Corporation, General Motors, and many other like business activities, many other holding companies, that control the business activities in the several fields, and they are getting together in larger and larger units all the time, are they not?

Mr. OTTLEY. Correct.

Mr. BUSBY. Now, following Mr. Seiberling's question, it would be impossible to keep the headquarters for those institutions from going to the larger money centers in our country, would it not?

Mr. OTTLEY. Yes, sir; it would be impossible.

Mr. BUSBY. You had one institution that grew to very great proportions in Atlanta, the coca cola business. Do you know where the coca cola business headquarters are at the present time, whether in Atlanta or New York?

Mr. OTTLEY. Atlanta.

Mr. BUSBY. Now, while business is growing bigger, banks will have to grow bigger to take care of the business of these growing institutions, will they not?

Mr. OTTLEY. That is correct.

Mr. BUSBY. And do you not think that that is largely the reason why banks are being put to the test in trying to get together as quickly as possible in larger units?

Mr. OTTLEY. Undoubtedly so, sir. In other words, the banks are but servants of business, and in order to serve bigger business, they must be larger themselves.

Mr. BUSBY. Now, you spoke of a great many banking failures in Georgia. I know that North Carolina, South Carolina, Georgia, and Florida had a very unusual percentage of bank failures during the last nine years. Do you not think that that was due largely to speculation in lands and in land values during that period of time?

Mr. OTTLEY. Well, I would not think it was necessarily due to land speculation.

Mr. BUSBY. That was largely true in Florida, was it not?

Mr. OTTLEY. Yes, sir.

Mr. BUSBY. Was it true to any extent in Georgia?

Mr. OTTLEY. We have had, I would say, very little land speculation in Georgia.

Mr. BUSBY. The result of the Florida boom, however, was to siphon the money out of your territory, it being close by, into the Florida operations, was it not?

Mr. OTTLEY. A great deal of money went there; yes, sir.

Mr. BUSBY. And that was also true of other States such as those just north of Florida, North Carolina, and South Carolina?

Mr. OTTLEY. Yes.

Mr. BUSBY. Do you not think that those States were ultimately affected in a financial way by reason of the fact that the people took available money and went to Florida and tried to make fortunes with it and then lost much of it when the crash came?

Mr. OTTLEY. I think that had some effect, but within a very short time this system that has been discussed here, the Manley system, produced a very large number of banks which failed immediately or within a very short period of time, and then the other bank failures in Florida, that have continued following that, have been due to the depression as an after result of land speculation. Now, in Georgia, primarily, I would think, and as far as I would express an opinion, in South Carolina, it is mainly due to the depressed condition of agriculture, and, as I have endeavored to point out, the foundation for the average country bank is banking, and if the farmer makes money, the banks make money, and if he does not, then they are out of luck.

Mr. BUSBY. Now, agriculture was boosted and developed considerably in response to the appeal of the Government during the war and shortly after the war, to grow foods and supply the Nation and the Army, do you not think?

Mr. OTTLEY. I think so.

Mr. BUSBY. Do you remember the days of 1918 and 1919, when we were appealing to people to even plant gardens in their back yards?

Mr. OTTLEY. Yes.

Mr. BUSBY. During those days wheat stood at \$2.20 a bushel all through the Northwest. I notice another great stretch of territory, in the central Northwest, in the wheat-growing district, where bank failures were tremendous during the last nine years. Do you not think that that was due largely to the appeal that caused us to overdevelop our agricultural activities?

Mr. OTTLEY. Well, I see what you mean. At any rate, there was an overproduction at high prices, and it was the deflation from the high prices to the low prices that resulted in these bank failures.

Mr. BUSBY. The banks that were doing business in those sections of the country could not help but go down when the country went down.

Mr. OTTLEY. That is correct; and when the community fails, the little bank fails under that system.

Mr. BUSBY. Now, the present method of handling finances in this country has the tendency to overdevelop commercial activities, especially with regard to stocks and bonds, has it not?

Mr. OTTLEY. Mr. Busby, that is a question I believe to be a little out of my line.

Mr. BUSBY. You know this, however, that financing trading on the New York Stock Exchange, through the sale of stocks and bonds listed on it as well as some other exchanges, has drawn considerable money out of all parts of the country into those centers, and this action has left a dearth of money in the outlying sections of the country, so much so that business has been stifled considerably for lack of money on which to operate; is not that true?

Mr. OTTLEY. According to my observation, that is not correct.

Mr. BUSBY. It is not correct?

Mr. OTTLEY. I might just say this, that a great many corporations heretofore have financed their business by borrowing money on the notes of the corporation, but in later years those corporations have taken advantage of the money market to sell preferred stock, to sell debentures, and to sell bonds which would finance their business for a number of years, and those securities have been sold throughout the country, and that has taken them out of the banks to a large extent and relieved them of the necessity of borrowing from banks; and right at that point I might say that under the Federal reserve system one of the most difficult things that banks have to deal with to-day is to keep their funds invested in loans that are eligible for rediscount with the Federal reserve bank.

Mr. BUSBY. What do you think about the law being broadened so as to make more classes of paper subject to rediscount at the Federal reserve banks?

Mr. OTTLEY. I think that is worthy of this committee's most earnest consideration.

Mr. BUSBY. Is it not quite an effort to try to find enough eligible paper to invest the assets of the banks that must be kept liquid?

Mr. OTTLEY. That is correct.

Mr. BUSBY. Formerly corporations and business institutions borrowed their money from banks, did they not?

Mr. OTTLEY. Yes, sir.

Mr. BUSBY. And under the present system those same business activities or institutions or corporations issue their stocks, bonds, and debentures and sell them through the stock exchange, getting their money directly from the people who purchase these stocks, bonds, and securities?

Mr. OTTLEY. That is correct.

Mr. BUSBY. And it has reversed the entire system within the last few years?

Mr. OTTLEY. Yes, sir; and might I just add one word along that line?

Mr. BUSBY. Yes.

Mr. OTTLEY. And that is this, that up to the period of the war, the large majority of loans that were offered to banks were without collateral; that is, they were plain notes, based on indorsements or a statement, as the case might be. The agitation that went through

the country about buying United States bonds was a wonderful step toward thrift, so that now in the majority of instances when people come in for a loan, they have invested in Liberty bonds, started that way, and then bought these securities to which you referred, and they come in from time to time with collateral, and the number of borrowers who voluntarily offer collateral listed on the stock exchange has multiplied very, very greatly.

Mr. BUSBY. That is all, Mr. Chairman.

The CHAIRMAN. We will recess until 2.30 o'clock this afternoon.

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

AFTER RECESS

The hearing was resumed at 2.30 o'clock p. m., at the conclusion of the recess.

STATEMENT OF JOHN K. OTTLEY—Resumed

The CHAIRMAN. Mr. Ottley, I should like to ask you—and my question does not apply particularly to your own situation but to the development generally throughout the country—about the consolidation of banking groups which results in chain, group, and the extension of branch banking. How much of this development do you think is a desire of the moving spirits to become big, because bigness means financial power; in other words, is that prompted by a desire to get big or prompted by other motives?

Mr. OTTLEY. Mr. Chairman, it is my belief that it is prompted by the economic trend of the business.

The CHAIRMAN. In that connection, some people make the argument that great banking consolidations are not needed to accommodate great industrial combinations and point out that it is fallacious. They point to the fact that most of these corporations do not need banking help.

This morning Mr. Busby asked you some questions pertaining to the change in the method of financing business; that whereas it was heretofore done largely through banks, now the corporations and big industries are getting their money through the issuance of common stocks and modern vehicles of investment securities.

In that connection I recall the other day when Mr. George F. Rand, of Buffalo, was before the committee, he cited, off the record, case after case of large accounts, in and around Buffalo, or within the area of their banks, which because of consolidations with larger corporations, with their main offices in New York City, had been lost.

If you will look over the annual statements—look over the September 29 clearing-house banks of New York City—you will find where those banks were acting as brokers for these industrial corporations and lending large amounts of money which at that time was running up into the billions of dollars. I think you will find that we have an entirely different situation. Would you care to comment on that particular angle of the thing?

Mr. OTTLEY. As to the angle of these New York banks acting as brokers for those concerns in lending money?

The CHAIRMAN. Not particularly that, but I was attempting to show how that was piling up in New York on account of these changed

methods of financing. You say that this is necessary to accommodate these large groups that are being formed, whereas, as a matter of fact, most of them are being financed independently of the banks.

Mr. OTTLEY. I shall be glad to give you my idea on that.

The CHAIRMAN. It is a factor in this whole situation and we would be glad to get your thought on it.

Mr. OTTLEY. Just as I stated this morning, a large number of these corporations, instead of borrowing, as they formerly did, you might say, in a small continuous or seasonal demand, that is not now so true because of their particular financing. On the other hand, from time to time these big corporations for a short period—maybe one time this one and another time that one and at intervals—want sums of money that, on account of their size were formerly accepted as being worth while, do not now mean anything when they want to borrow money.

The CHAIRMAN. So that in order to take care of their casual demands, you feel it is necessary to grow big in order to hold that business?

Mr. OTTLEY. I should like to make a statement that I would prefer not to go in the record, if it is agreeable to you.

The CHAIRMAN. We will be glad to have you do that.

(Discussion off the record.)

The CHAIRMAN. I understood you to say this morning that, in your judgment, these many small bank failures throughout Georgia, Florida, and other sections of the country were due largely to the deflation which took place in the price of products raised in those sections. Was that a complete answer, do you think?

Mr. OTTLEY. I said that and I repeat that, and I might just simply say to the general depression in which agriculture finds itself in our territory.

The CHAIRMAN. Would you attribute management as any factor in that situation?

Mr. OTTLEY. Management, I think, is always a factor.

The CHAIRMAN. Would you go so far as to say that these little banks located in the isolated farming communities, as a general thing, were not competently managed?

Mr. OTTLEY. No, sir; I would not—

The CHAIRMAN. I am not intending that as a reflection on them, but I am prompted to ask that question to elicit the information because of the fact in some of these localities there are good banks existing to-day who have been making loans to that class of people whereas other banks in that community or territory have failed.

I am trying to ascertain what is the real cause for that. During this distressed condition, I happened to address a group of bankers in New Hampshire when banks were failing in the Northwestern and Middle sections of the country and I was impressed by the type of men who attended that meeting. There have been practically no bank failures up there, but here was a conservative type of men entirely different from the type that existed in the localities where the failures occurred, where oftentimes they were the sons or brothers of the farmers of the community or the people engaged in vocations in that community, where their money was received from that class of people and loans made to that class of people where, if crops were bad they were liable to be involved.

I wondered how much management entered into that situation.

Mr. OTTLEY. I think management enters very materially into the success or failure of any line of business and it is no different in banks. Along that line, you will find in a community these several banks and one or sometimes two will be successful and continue to be successful, whereas the other bank in the community will limp along for a while and then fail. Now, broadly speaking, they have the same opportunity.

But I think that general conditions also have a great bearing. Now when the base on which a bank rests is very much restricted, it makes it very different. When it comes to the question of management you will find in communities, particularly here and there, men of property and who have grown up with the community and have had experience and all, for reasons satisfactory to themselves, will stay on in those communities. But you take the younger men that are coming along, the opportunities apparently are so small in those communities and in those small banks, that the best minds are sought, I will put it, by the larger communities, giving them the larger opportunity.

So, based upon my knowledge and information and experience, it is growing increasingly difficult for the owners of those banks to continue to have the management go along as it should in any organization. Based on that, we have constant inquiries from the large owners—sometimes from the directors and sometimes from the presidents—to assist them in finding young men who are willing to come on as cashier and take over the work.

The CHAIRMAN. So, after all, management is a factor in those situations?

Mr. OTTLEY. Yes, sir; it is a great factor.

The CHAIRMAN. My familiarity with that period of time from 1893 up until 1923 comes from the fact that I grew up in a country bank of the type we are now discussing and I knew personally of the different changes that were run in on us from time to time and many times thoughts of those experiences have come to me since we got into these studies. Many of the causes most of us were not able to understand at the time.

One of the most important changes that took place was in 1913 and 1914, when the Federal reserve act was created. I am wondering whether the putting into operation of the Federal reserve act and the classifications of loans, as to eligibility for rediscount in the Federal reserve, and perhaps the adoption of a different set of rules in regard to country banks, and the fact that subsequently the opportunity for many of these banks to make money was taken away from them—whether or not that has not had considerable bearing and influence in connection with this readjustment.

Would you care to say whether or not that is a factor in this situation? In other words, years ago the country bank was an entirely different shop from what it is to-day. It has been modernized and is more up to date and along the lines of a city bank. Are we not trying to make something of the country bank that is impossible?

Mr. OTTLEY. Mr. McFadden, I came up here prepared to come before the committee and tell everything I know and everything I think.

The CHAIRMAN. I know this is a subject, Mr. Ottley, that you have given some thought to.

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. Any banker who has been in the business as long as you have and situated as you have been, in a position to observe the small country bank and the city bank, certainly possesses valuable information for this committee in this study, and I am asking the questions to get your views.

Mr. OTTLEY. And I am glad to give it to you. In the first place, I should like to say that I am a great advocate of the Federal reserve system, and I have been since its inception an ardent supporter of that system.

The CHAIRMAN. I was not casting any reflection on it, you understand.

Mr. OTTLEY. I understand, but I would like to preface what I am going to say by the statement I have made, because there are some things that I may say which, if I have not made that statement in the opening, you might, or someone else might, think I was inclined to criticize the Federal reserve system.

So, I want to open my statement by that.

I think that the establishment of the Federal reserve system has been a great thing for the United States as a whole. I think that it has been a great thing for the banking industry as a whole. I do feel that, with regard to the small country bank, the Federal reserve system might be liberalized; in fact, I think there are certain things I will be glad to mention that I feel the Federal reserve system might be liberalized in regard to, in regard to all banks, but particularly to the small country bank.

The question of exchange on collection of checks which, if they are a member of the Federal reserve system they must remit without any charge, has taken from the country bank a source of revenue. In addition to that, the requirement that they shall keep their reserve with the Federal reserve bank without interest, whereas they could before keep their reserve with a correspondent and draw interest, has been another thing.

I have been such an advocate of the Federal reserve system that when country banks have asked me my advice as to whether to join the system, I have unhesitatingly recommended them to be a member of the Federal reserve system with the idea of giving their indorsement and their support and of really paying their part of the burden of the Federal reserve system. Now, when they get right down to the question of dollars and cents, from the standpoint of income, due to the fact that, say, the First National Bank of Atlanta—this is purely impersonal—is a member of that system and gets the benefits of the Federal reserve system, these country banks, of course, can get the benefit of the stabilization that the Federal reserve system offers to the banking industry really through us without paying the expense, in a sense, that they would have to pay if they are a member of the system.

So I think, in view of the difficulties that country banks, particularly, are having in making money—and no bank can be safe or other business be safe unless it does make money—I think along that line probably, due to certain questions asked by members of this committee, they may be under the impression that the banking business as

a whole is a very profitable and very lucrative business, but I think as an offset to that, a study of the bank failures of this country, particularly in the rural districts, might make them take a second thought on that—

The CHAIRMAN. You would also recommend a study of the earnings of small banks throughout the country?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. And the amount of interest they pay on deposits?

Mr. OTTLEY. Yes, sir. Along the line that we were discussing, it has occurred to me that the Federal reserve system might, to the advantage of the banking fraternity, as well as to the advantage of the Federal reserve system itself, liberalize its policy in two particulars. One is to the country bank in the possibility of paying or allowing them some form of exchange. For example, when the Federal reserve system was organized it said that a check in one place is immediately available, without cost, in a different place in the country. That was passed on to the public, but as a matter of fact, the Federal reserve bank—and you know better than anybody else when you put a check in, the bank has to carry that float.

The CHAIRMAN. I am sure you will recall the fact that I led the fight for the country banks when the so-called Hardwick amendment was up. I felt then and feel now there should be some way to recompense the small country banker for that service. I think the Federal reserve system has since recognized that and I think they agree there was a grave mistake made.

Mr. OTTLEY. I believe that because of this par clearance that they at one time outlined they would enforce rigorously, but they have not continued.

The CHAIRMAN. The Federal reserve itself has adopted a service charge on certain collections?

Mr. OTTLEY. No, sir.

The CHAIRMAN. They have not?

Mr. OTTLEY. No, sir. So, I would think they could well afford to consider a modification of the Federal reserve system in allowing compensation for the collection and remittance of checks and collections—checks particularly, because they may allow it under collections; but checks in towns of small population.

Second, I feel that the earnings of a Federal reserve bank could well afford to have what I would term a more even distribution than they have at the present time in that the banks make a contribution of the capital which was originally the thing which was put at risk, on which they get 6 per cent, but in addition to the capital, then the banks furnish the reserve on which they are not allowed any interest. The Government, on the other hand, gives them the franchise for using Federal reserve notes.

Now, I feel the Government and the banks are really partners in the operation of the Federal reserve system, whereas the only compensation or only return that the banks ever receive is the interest or dividends on the amount of capital stock which they have actually paid in. All of the profits and all the reserves belong to the Government over and above the actual capital paid in and I believe I am correct in saying that the Federal Reserve Bank of Atlanta, for illustration, for the last year, paid a franchise tax to the Government of approximately \$900,000.

Now, roughly speaking, the member banks made an equal contribution along with the Government. Now, if the exchange was given consideration to the banks in the smaller communities, that would help them and be an incentive to them to join the Federal reserve system.

The CHAIRMAN. You recognize, of course, that the Federal reserve system is of more value to the banks that are located in close proximity to the Federal reserve centers, than to the little banks off in the field?

Mr. OTTLEY. Yes.

The CHAIRMAN. If I understand you correctly, you would like to do something out of the Federal reserve earnings for the fellow in the sticks—do more for him than for the fellow who gets a more direct benefit from the Federal reserve bank?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. You make a distinction between the two?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. I think there is a demarcation there where some additional relief could be extended from the system.

Mr. OTTLEY. In short, I am suggesting that the question of consideration in the matter of exchange for the collection of checks be allowed in towns of small population which would automatically cut out places like Atlanta, New Orleans, and cities of that kind.

The CHAIRMAN. Have you any other suggestion as to how the small country bank might be put into a stronger position to have more earning power?

Mr. OTTLEY. Yes, sir. The question of exchange, I think should be an exclusive proposition with reference to towns of small population.

Now, then, I think that it would be a great mistake for the Federal reserve system to increase its fixed charges, but I do believe that the expenses should be paid and losses should be charged, the dividends on the small capital stock should be paid and that the residue of earnings should be on a basis of a fair division between the Government and the shareholders; that is to say, that the country bank then would not be guaranteed a given percentage of interest on its reserve or any member bank so far as that is concerned, so as to create a fixed charge on the Federal reserve system, but when the year's business was done and finished and wound up, that both the Government and the member banks would participate in the earnings.

The CHAIRMAN. In the distribution?

Mr. OTTLEY. Yes, sir; in the distribution of earnings.

Now, that would help the country bank in addition to its exchange. It also would help the member bank, whether large or small.

The CHAIRMAN. I introduced a bill in the present session of Congress attempting to deal with that particular thing. In it I attempted to distinguish between the bank located near the Federal reserve bank as against the smaller country bank, giving the country bank a larger percentage of the earnings. It is a difficult thing to work out, but I was trying to do it, basing it on their capital and legal reserve deposited with the banks.

Mr. OTTLEY. Another thing I think should be allowed and that is that participation in the division of earnings should apply only up to the required legal reserve; that is to say, I am not suggesting that they should pay it on the amount of money that a bank might keep there, but on what they are required by law to keep there. I am of

the opinion that that would really not cost the government a lot of money to do that, for this reason: When people have money invested and they have an opportunity to get a return on it, they take an active and direct interest in the management of that concern and in the amount that it makes.

Under present conditions, why member banks, under the existing law, can only get 6 per cent on the amount of the capital stock they pay in. There is no incentive for the member banks to take an active interest in a Federal reserve bank. They do not have any stockholders' meetings, such as are ordinarily held. The election of the directors is conducted by mail under the various classes, and so forth, whereas I believe that if the member banks had a chance to participate in the earnings it would be first an incentive to increase the membership in these banks and, second, it would create an active interest in the Federal reserve system which now does not exist.

The CHAIRMAN. There is another angle to this, Mr. Ottley, that I want to direct your attention to, from my own observation, from the period between 1893 to 1924, in the country banks.

Mr. BRAND. May I ask a question there without interrupting you?

The CHAIRMAN. Yes.

Mr. BRAND. You mean, as I understand you, after ascertaining the amount of the franchise tax to be paid in the Treasury of the United States and before the 12 banks pay the same to take a part of it and give it back to the country bank?

Mr. OTTLEY. That is the point I am trying to make. Do you know what the franchise tax is now?

Mr. BRAND. Total amount paid by all the Federal reserve banks since organization is \$147,109,574. The Atlanta bank paid for 1929, \$803,790.

Mr. OTTLEY. Well, they call it a franchise tax, but, as a matter of fact, it is all that they earn.

The CHAIRMAN. During the period I have referred to the method of conducting these country banks has entirely changed. For long periods during that time there were comparatively few failures of country banks, and I wonder whether the question of supervision or the introduction of new methods has had anything to do with these more recent failures; in other words, this distinction: Were we, during those periods of no failures, more lenient in regard to the class of securities these banks held, or have we adopted more drastic methods of examination and criticism now, that bring about these failures?

I wish to bring out another point that has a bearing on this. In most of these country banks it is very difficult to have any market values on the loans that are in there—that is, the security that is back of them. It is a slow and different class of security, as contrasted with the security in city banks where there is a ready market for it. I wonder whether our later rules and classifications and our examinations have not proved too drastic. In other words, as contrasted with the old rules which are as familiar to you, as a banker, as the A B C's are to a boy, we have not recently applied more drastic rules.

I should like to go a step further in that connection, as to the method of arriving at the real value of these assets. If we set up a gage, as we have in the New York Stock Exchange, of securities, of

supply and demand for securities, as a daily average, which is represented in the quotation of securities, I wonder whether that is an accurate criterion or whether the judgment of the men in the locality where the country bank is located as to the value of those securities might not be just as good. For instance, there was a time when certain stock on the New York stock market, in the last few years, was selling as high as \$400 a share, whereas an accountant who examined the assets of the company would find the liquidating value of those shares was under \$1. Do I make myself clear to you?

Mr. OTTLEY. Yes, sir; absolutely.

The CHAIRMAN. Has the question of arriving at the value of securities back of loans in banks had anything to do with the drying up of these country banks?

Mr. OTTLEY. I think I understand what is back of your mind. I would say, based on very accurate—I do not say accurate, but very intimate—knowledge of the conditions of these country banks, both national and State and their method of examination both in and out of the Federal reserve and in and out of the national banking system, I do not attribute the failures that we have had, to any change of the form of examination or any change in the form of requirement or to applying new rules as to the market value of the assets of these banks.

I am of the opinion that the national-bank examiners have been intelligent but considerate. I am of opinion that the superintendents of State banks have been very considerate—extremely so—and I believe that the same applies to the examinations made by the Federal reserve system; that they have been intelligent but have been considerate.

I think I can give you an illustration that will bring out the point you have in mind, but I should like to make it off the record if it is agreeable to you.

The CHAIRMAN. That may be done.

(Discussion off the record.)

The CHAIRMAN. You do not see any possibility, in the building up of these groups that there might be a concentration of power which would restrict and tend to dry up the rural districts of this country?

Mr. OTTLEY. Mr. McFadden, I do not. So far as the groups are concerned, I think the real difficulty will be to get good groups to go into the country.

The CHAIRMAN. You think they would be better served? You may have answered this question as to group and branch banking. You think the group plan would be preferable to chain or branch banking?

Mr. OTTLEY. I have answered that at length, but you were not here, and I will be glad to answer it again, and I wish to say that, in my opinion, the group system is superior to unit banking and that, on the other hand, branch banking is superior to group banking in that it can be made very much more flexible and can be operated at very much less expense than can the group system. I have outlined in my statement—I have just made a rough estimate of it and it will answer what you have in mind—just a rough estimate on my part is that it would take a bank of approximately \$1,000,000 to warrant a group in wanting to take over the control of it; in other words, it would take about \$1,000,000 under the group plan, to interest

the group in going into any particular bank, whereas, as a matter of fact, a branch could be operated and make money on very much less deposits.

The CHAIRMAN. Under the present predicament that we are in, with this movement in progress to the extent it is, supposing that Congress fails to act on the subject of branch banking: Will the development in these various forms continue under the impetus already given them; in other words, that this thing will go on and go on and go on until we develop the group and chain banking idea to the "nth" degree, probably?

Mr. OTTLEY. I would like to speak about group or branch banking, but the chain idea I am not in favor of. But I think, in the absence of legislation, the group method will continue to progress.

The CHAIRMAN. Well, would you think it advisable, in view of the possible tendency of weak groups to get into that particular kind of business now—the danger that exists, for instance, in building up such a group as was known as the Manley Group in your country? I mean by that—and I stated this the other day—they are formulating groups by promoters who are proposing to take over a large number of small banks in various States and operate them through holding-company management. They are going into stock promotions and getting the money to buy up control of these banks and use them in the way that holding-company promoters might use them first, to gain control of the assets and preempt the business of the particular vicinity in which they are operating and use it in the exploitation and sale of securities.

They are a different type of people than you and the Guardian Trust people in Detroit and the Marine Group in Buffalo and these other groups. There is no check on those people doing that; in other words, any one can go out to-day and buy a bank anywhere without asking any superintendent of banks or the Comptroller of the Currency or the Federal Reserve Board whether or not it is the right thing to do.

Would you think, in the circumstances—and I think you know what is in the air at the present time—while this discussion is on and we are studying this situation and getting ready, perhaps, to legislate to cover the requirements, it might be advisable to put in some restrictive legislation to provide, for instance, that no bank could be taken over into a group, either a national or State member bank of the Federal Reserve System, without getting the consent of the Comptroller or the Federal Reserve Board or both?

Mr. OTTLEY. Mr. Chairman, I think that would be highly desirable.

The CHAIRMAN. The thought has been growing, while we are considering this particular legislation and the agitation is on, that the mere discussion of this subject has enlarged and magnified the opportunity in the minds of clever people that here was a chance to proceed while there was no check, so that there might be built up in this country bank groups that might be in entirely wrong hands, and that perhaps we should, pending the outcome, put some check on it.

Mr. OTTLEY. I am very much impressed with the question and the way you have put it, and I would say this, that, first, the First National as a group would welcome any check that you might put;

in other words, if the Comptroller of the Currency, or the Federal Reserve Board, or both, objected to our annexing or acquiring any other bank, I would think that we ought not to do it; we might agree with it and we might not, but I mean by that that in the interest of this system as a whole I think it is desirable, particularly desirable, to insure the right kind of people going in it and on a proper basis, and, so far as I am concerned, and so far as the interests I represent are concerned, I would welcome it.

The CHAIRMAN. Of course, the only way the Congress could reach that would be through national banks and State member banks of the Federal reserve system. That would leave unprotected, however, unless the State banking departments of the various States promulgated special rules and regulations, or the States provided similar laws the State banks which are not members of the Federal reserve system. However, it would confine the operations of promoters attempting to do this thing to that particular class of non-member State banks.

Mr. OTTLEY. I catch your point.

The CHAIRMAN. I have before me a draft of bill to cover that, and I would like to have your opinion on it. The bill proposes to authorize the Comptroller of the Currency and/or the Federal Reserve Board, or both, to approve or disapprove the entry of any member bank in the Federal reserve system into group or chain banking. The bill would read as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the approval of this act it shall be unlawful for any corporation, copartnership, individual or trustee to purchase or otherwise to acquire more than 25 per cent of the shares of the capital stock of more than one member-bank of the Federal reserve system, whether State or national bank member, except after first having the approval of the Comptroller of the Currency and/or Federal Reserve Board, or both.

Any person or corporation violating this act shall be deemed guilty of a misdemeanor and shall upon conviction thereof in any District Court of the United States be fined not more than \$10,000.

Would you think that such a provision as that would cover this situation?

Mr. OTTLEY. Yes, sir. The only suggestion I would make, just from hearing you read it over, is with respect to the question of the 25 per cent. I would think, if I may make a suggestion——

The CHAIRMAN. I want your suggestion.

Mr. OTTLEY. I would think something along that line would be highly desirable, for this reason, that in my judgment group banking for the country is better than unit banking, and I do not know how long it is going to be, but I feel that that is going to be the real substitute for branch banking.

You gentlemen have a hard task before you, and it may take some time; nobody knows how long it is going to take for you to reach your final conclusion in this committee, and then in Congress, but pending that I feel that any restrictions or supervision that you can throw around group banking are desirable, with the idea of protecting the public and not having a disrepute on what is going on at the present time.

The only suggestion that I would make about what you have read there, as far as I can see it, is that I think that 25 per cent should be reduced. What I mean by that is not that 25 per cent is con-

trolling, but I think that at the same time it would be undesirable for a bad group to buy as much as 25 per cent.

The CHAIRMAN. Would you say 10 per cent?

Mr. OTTLEY. I would not want as much as 25 per cent.

The CHAIRMAN. Just what is your suggestion?

Mr. OTTLEY. In other words, I would say 10 per cent instead of 25 per cent. That would be my suggestion, because that 25 per cent in one block would be too much influence if it was not the right kind.

I may be wrong about it, but that is just a suggestion, and if you are going to do it, you can do it with 10 per cent as well as 25 per cent, and it will be that much safer.

The CHAIRMAN. In the formation of these groups it has come to our attention that some of them, and rather strong groups, have been taking over some banks that were not solvent. Some of the men who are engaged in this group form of banking have suggested to us that they would not take over a bank that was insolvent.

In your particular instance, have you confined your operations in the South entirely to the soundness of the institution, or have you taken over some banks where you wanted to preempt the business of that locality and have taken them over at a possible loss?

Mr. OTTLEY. Mr. Chairman, I am very glad to be asked that question and to be given an opportunity to answer.

I will say that our line of procedure has been first that we have dealt only with banks for whom we had served as correspondents for a long number of years, and by virtue of that we knew the management and we were well acquainted with the banks, and all of our negotiations have been directly with the management; that is to say, I have dealt right with the president of the institution and not gone on the outside and bought up any stock. In addition to that, we have made our negotiations based on an actual examination and appraisal of the assets, and we have not bought any bank, first, that did not have good management, second, that was not sound and clean—and I do not know whether you have before you the names of the banks and the dates on which they were organized. You will note that not a single new institution is in there, not a single one that is an old bank, with a fine reputation, well deserved.

I might add to that that the First National Bank is sufficiently jealous of its reputation that we would not be willing to buy a bank that was not of the same character in its neighborhood that we were in ours.

The CHAIRMAN. In your operations, have you an affiliated investment company?

Mr. OTTLEY. Yes, sir, we have; the First National Co.

The CHAIRMAN. Do you deal in investment securities?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. Are your activities in your investment company confined to your particular area or do you seek business outside?

Mr. OTTLEY. Of course, we do seek business. We do seek business outside, but it primarily is confined to the sixth Federal reserve district.

The CHAIRMAN. Do you intend to confine your operations to what you might call a trade area, or to the State of Georgia, or just what is the fixed area that you have in mind?

Mr. OTTLEY. Our operations up to the present time have been confined, so far as the affiliated banks are concerned, to the State of Georgia, but I do not have any hesitation in saying that I do not feel that State lines mean anything, and, with regard to laws that may be enacted, it is my suggestion, or rather my opinion, for I do not mean to suggest, that it would be advisable to limit branch banking, if you saw fit in your wisdom to permit it, to what might be called trade areas, and when you come to the question of what should be a trade area, I think that is probably the most difficult nut that you are going to have to crack, and it is more or less difficult for me to answer the question as to what I term a trade area, but I would answer that by saying that the country as a whole should be limited to the Federal reserve districts as a basis. Various corporations have made studies to determine what those trade areas were from a financial standpoint and the trend of business in the different sections of the country, and a great deal of time and study were put in on that, but I think that, as far as I have been able to observe, great wisdom was exhibited in the establishment of those Federal reserve districts.

The CHAIRMAN. You would not go so far as to say that we should confine the banking business to be done in your district to that district, would you?

Mr. OTTLEY. I would not suggest that you confine the banking business to the district, because, of course, there are banks that do business all over the United States; and I think that the idea of avoiding monopolies is a fine thing, and I think that will stop the possibility of monopoly.

The CHAIRMAN. My question was whether we should provide that all banking business originating in a certain Federal reserve district shall be done in that district, and with banks in that district only?

Mr. OTTLEY. No, sir.

The CHAIRMAN. You would not go that far?

Mr. OTTLEY. I would not even touch that, because I think that the public should have all the leeway that they can; but what I do have in mind is this, that if you are going to grant branch banking, I would suggest the Federal reserve districts as a basis, and in certain cases I take it you would find it desirable to go outside of the district, but I think that the Federal reserve district should be the basis for the branches of a bank, that you should confine the branches to the Federal reserve districts in which the banks are located, and then, as to anything outside of that, it should be the exception rather than the rule.

To illustrate what I mean more clearly from a personal standpoint than otherwise, I said in my original statement that, just roughly speaking, I would suggest that in the case of Atlanta the sixth Federal reserve district be the basis, plus a portion of South Carolina and North Carolina.

The CHAIRMAN. In the formation and operation of your group, have you made any change in your lending policy from the policy that the units followed in dealing with local business men?

Mr. OTTLEY. Yes, sir. We have made changes. The principal changes that we have made in that respect have been to increase the lines of credit to worthy customers in those cities; that is to say, you take the cities into which we have gone; we have strong corporations there that used or were likely to use lines of credit that were incon-

sistent with what those local banks could either legally or comfortably furnish. To illustrate what I mean, suppose that a concern was getting a \$100,000 line of credit from one of those local banks with which we affiliated ourselves, and that those people had use for \$200,000, \$300,000, or \$400,000. We have granted those increased loans where we were satisfied as to their soundness, and so forth, and we have said to the local bank, "Go ahead and tell him he can get so much," and to help that local bank we have just let them pass the paper in payable to their order, and when they got it up to their limit, they just charged it to our account and sent it to us, and we bought it without any recourse the same as we would buy commercial paper.

The CHAIRMAN. So you do make available, in the communities where you are taking over these banks, funds from these other banks?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. From your observations up to date, would you say that you have probably sent in more money to those localities than you have taken out, or is that a difficult thing to state?

Mr. OTTLEY. I would say that we have sent more money in than we have taken out, and, as a matter of fact, that was one of the things that really appealed to the first national group, the fact that we have a very large deposit account from a class of customers that are not continuous borrowers, and for that reason we have large sums of money for investment at all times, and we are seeking commercial paper and other investments, and we felt that instead of just buying commercial paper through a broker, somebody in San Francisco or Boston or some place else, if we could invest that money in the South, in our own district, that that would be of benefit to that customer as well as of benefit to ourselves.

The CHAIRMAN. Have you been able to determine the effect that the establishment of these members of your group has had on the rates of interest paid by borrowers? In other words, has it changed the rate of interest, or do you charge the current rates?

Mr. OTTLEY. Mr. Chairman, I could not answer that question specifically, as to what effect, if any, it has had on the community, but the loans with which I have come in contact have been based on current going rates.

Mr. BRAND. May I ask a question right there?

The CHAIRMAN. Yes.

Mr. BRAND. Suppose Congress should establish nation-wide branch banking; what would become of your group of banks? Would they continue to exist, or adapt themselves to the new law?

Mr. OTTLEY. Judge Brand, that is more or less a difficult question to answer, because that is in the future. In the first place, I do not believe that this country is ready for nation-wide branch banking, but regardless of whether it is or not, and regardless of whether Congress should enact it, those of us in the First National Bank felt that group banking is here and on its way and that that was but a step to branch banking, and we felt, first by the merger of the Atlanta-Lowrey and the Fourth National into the First National, that we created an institution that was able to take care of big business and that was in line with the trend of the times, and that it strengthened our position and, second, in creating this group, we felt that it put us in an independent position so that if there was nation-wide branch banking we would be in a position that we would have a place

in the sun and it would put us in an independent position so that we would not be and could not be forced to do something that did not commend itself to us.

Is that clear?

Mr. BRAND. Yes.

The CHAIRMAN. Mr. Ottley, in connection with the operation of your group and your investment houses, do any of your affiliated companies deal in the stocks of your own banks?

Mr. OTTLEY. I do not understand.

The CHAIRMAN. Do any of your banks or holding companies or investment companies deal in the stocks of your own bank; or do you make a market for them, buy and sell them actively?

Mr. OTTLEY. The First National Co. deals in securities, and they buy if somebody comes along and has a few shares of stock that he wants to sell in the First National Bank, and they will sell it the same as they will buy the stock in any other bank.

The CHAIRMAN. But you do not do it for the purpose of maintaining control, or anything like that, or to make a market for your securities or maintain a market?

It was brought to the attention of the committee that in one instance a holding company was created by a dividend out of the surplus earnings of the bank and that that holding company is now holding 70 per cent of the stock of the bank. Would you think that was good policy for a holding company, affiliated with and owned by the same stockholders, to carry on?

Mr. OTTLEY. No, sir.

I might say, roughly speaking, that the First National Bank stock is owned by around 1,250 shareholders, and if the First National Co. has any of the stock of the First National Bank, it would be merely a nominal amount.

The CHAIRMAN. In connection with the securities which your securities company handles, either by underwriting them or otherwise, does the central control use the units of the group as a market? In other words, do you originate securities and sell them to your banks, as a general thing?

Mr. OTTLEY. Those banks, if you would like to know exactly what our relationship is—

The CHAIRMAN. Yes.

Mr. OTTLEY. The First National Co. has an office in Savannah for the distribution of securities. Our affiliated organization there has a bond department of its own, so that the operations, while friendly, are entirely separate, and that bank, having a bond department, has certain participations from time to time offered to them on their own account.

The First National Co. also has an office at Macon, and they operate their own bond department.

At Augusta the First National Co. has an office, and in view of the fact that they are housed in the affiliated bank there, and furnished certain clerical help and light, and so forth, a percentage of the profits made through that office is given to them, and they assume no responsibility whatever. They have no money invested, and if there should be any loss, it is a loss of the First National Co.

Then there is one at Columbus on the same basis.

At Rome the First National Co. has no office, and the First National Bank at Rome has no bond department.

The CHAIRMAN. Is it your observation that you are distributing a larger amount of investment securities in that area than you did previously through the individual banks? In other words, has this evolution of this group tended to increase or decrease your sales of investment securities?

Mr. OTTLEY. Mr. Chairman, of course you know the trend of the security business at the present time. I would answer your question by saying that I think the evolution of these institutions would give the company a greater prestige in those several localities than they had theretofore enjoyed, and in the end that it would have a tendency to increase the distribution.

The CHAIRMAN. Then there is something to the thought that in the building up of institutions like this within a trade area there is apt to be a preemption of that territory in the distribution of securities?

Mr. OTTLEY. Yes, sir.

The CHAIRMAN. I can presume that you look forward to the sale of the major portion of the investment securities in that territory?

Mr. OTTLEY. Not necessarily so. I mean that I think it has a potential value, but the competition for the sale of securities is very strong, due to the fact, as I stated some time in this hearing, that the principal distributors of securities, mainly the affiliated companies in the case of these larger banks in New York, Boston, and Chicago, maintain offices in Atlanta, and some of them have a larger number of men traveling out from Atlanta.

The CHAIRMAN. But this kind of an association strengthens your opportunity to compete with that very class of business?

Mr. OTTLEY. Yes. I can tell you one other thing, that along with that, in this group, we have an institution, the Atlanta Savings Bank, which is purely a real-estate mortgage institution, and they lend money on their own account and they also represent clients, both individually, and as correspondents of insurance companies, and we are gradually working out a basis to offer those facilities to the people in these communities.

The CHAIRMAN. I assume that you would raise no objection to throwing open for examination by the comptroller or the State banking department these affiliated companies of yours, would you?

Mr. OTTLEY. No, sir.

The CHAIRMAN. On the contrary, you would advise it?

Mr. OTTLEY. Yes, sir; advise it and welcome it.

The CHAIRMAN. I thought you would.

I think that is about all that I can think of this afternoon.

Have you any further statement you would like to make to the committee that would be helpful to us? After all, we are studying this subject.

Mr. OTTLEY. Well, I made a suggestion about the Federal reserve system, and you brought out your suggestion about immediate legislation.

The CHAIRMAN. I am drafting that bill in proper form, and if it is completed before the House adjourns to-day, it will be introduced. If not, it will be introduced to-morrow morning.

Mr. OTTLEY. I heartily commend that.

I think your committee is to be very highly commended for the patience and all that they are putting in on this, because it is a very important subject.

The CHAIRMAN. We are very grateful to you for coming up here, and if there is any other thought that comes to you, we will be glad to have you send it along to us.

After all, we are trying to do a constructive job here; we are trying to get the facts and to find out just what is going on as well as what legislation is necessary to follow as a matter of course. It is a tremendous undertaking to try to concentrate into these hearings all of the information that we ought to have, and the questions that have been asked of you around the table have been asked principally for the purpose of eliciting information, for it does not always mean that when I ask a question that I believe a certain thing; it merely means that I am trying, and that is true of the other members of the committee, to bring out information, and you have been very frank with the committee, as I knew you would be and as you are always.

So we are deeply appreciative, and I am sure that I express the sentiment of all of the members of the committee to you for having taken the time to come up here and appear before us.

Mr. OTTLEY. I am very glad that I came, and I would like to thank you and the other members of your committee for the very great consideration and courtesy which I consider they have all shown me.

(Whereupon, at 4 o'clock p. m., the committee adjourned until Thursday, May 1, 1930, at 10.30 o'clock a. m.)

