

Branch, Chain, and Group Banking

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BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
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TO STUDY AND INVESTIGATE GROUP, CHAIN
AND BRANCH BANKING**

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CONTENTS

Statement of—	Page
Shull, C. G., commissioner of banking, State of Oklahoma.....	1569
Reichert, Rudolph E., commissioner of banking, State of Michigan..	1607
Hovey, Roy A., commissioner of banks, State of Massachusetts.....	1643
Nahm, Max B., vice president Citizens' National Bank, Bowling Green, Ky.....	1665

BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MAY 13, 1930

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

The committee met in the committee room, Capitol, at 10.45 o'clock a. m., Hon. James G. Strong, presiding.

Mr. STRONG. The committee will come to order.

We have with us this morning Mr. C. G. Shull, the commissioner of banking of the State of Oklahoma, who will speak to us on this question of branch, chain, and group banking.

Would you care to proceed without interruption until you have finished? If so, the members of the committee will then want you to answer some questions.

STATEMENT OF C. G. SHULL, COMMISSIONER ON BANKING, STATE OF OKLAHOMA

Mr. SHULL. I might say that if you care to interrupt me, it will be entirely satisfactory.

As a prelude to the few remarks I shall make, I want to state that no effort was made by me to be called as a witness before the committee and when I received the notice I was likely to be called it was quite a surprise to me.

The question under investigation is naturally a matter of much interest and one to which I have given a great deal of thought. However, I have not had access to statistics from which I could do much research work. I have read, rather hurriedly, with a great deal of interest, that part of the proceedings heretofore had by your committee, which was furnished me, and as I view the trend of this investigation it narrows itself down to whether Congress shall extend or enlarge branch banking privileges to national banks.

Comptroller Pole has laid the foundation of the argument favoring further extending the privileges of branch banking to national banks and as the remarks I shall make will be against that viewpoint, favoring unit banking, I shall necessarily refer quite often to Comptroller Pole's remarks and the statistics which he has furnished, but I desire the committee to understand that the references I do make are for the sole purposes of throwing light on the merits of the subject under investigation and not for the purpose of being argumentative. I think further, in order to simplify matters, we may as well realize that we are investigating a question as to whether the banking business of the United States shall be carried on under the system of branch banking or unit banking, for I believe that the discussion so far must have convinced the committee that if branch banking privileges are enlarged or extended that ultimately all banking will be of

that nature and will be nation-wide in scope. History of other nations clearly demonstrates that fact. Canada, England, and other branch-banking countries do not have unit banks.

The two basic reasons advanced by Comptroller Pole in advocating branch banking are: First, that it is necessary to preserve the national system; second, that it is necessary in order to furnish the country banking communities, especially in agricultural sections, with adequate banking facilities.

I disagree with him on both these points. It is true that during the last 10 years the resources of State banks have increased more rapidly than the resources of national banks. A large per cent of this increase has been brought about during the last few years by reason of several large banks in New York and Chicago merging and surrendering their national charters and taking out State charters. This increase has been rather spasmodic and there is no reason to expect this movement to continue. Naturally to one in a supervisory capacity this action on the part of those national banks was a matter of some concern, but I hardly think anyone views with alarm the safe position and the future growth of the national banking system in this country. I have talked with a number of national bankers about this very point and none of them is uneasy about the fate of the system to which they belong, and let it be remembered that the Federal reserve system has not lost in its membership by reason of these conversions and in spite of these losses of banks the system itself shows a very healthy growth indeed and considering the enormous volume of international business which is being transacted through our national banks I am sure they are handling their share of banking business in this country.

Great stress is being laid by the comptroller that the national banks are the fiscal agencies of the National Government and that the Government can only rely on national banks in times of Nation stress or war. I quote from a recent paper of the comptroller:

It is not criticism of the State banks and trust companies to say that the National Government can not rely upon them to serve as instrumentalities in the enforcement of a Federal fiscal policy. Banking, like other business enterprises, is entered into by stockholders for the purpose of realizing a return upon their investment.

The same can be said of national banks. The control of national banks is in the board of directors and aside from the supervision allowed the Comptroller of the Currency, the National Government can no more dictate the affairs of the national banks than they can of State banks, corporations, or individual citizens.

Since the establishment of the Federal reserve system, the Federal reserve banks are in fact the real fiscal agency of the Government.

The idea that the Government can not depend on the officers and directors of State banks to respond to needs of their Government in times of need is not well founded, as was demonstrated during the late war. State and national bankers, business corporations, and our entire citizenship responded heroically to meet the needs and demands of the Government. I think we will all agree to that. No power is in the National Government to compel a contribution of service or money of national banks or national bankers other than the power which could be enforced against State banks and bankers, business corporations, and private individuals. I can see no reason for

changing our banking system on the theory that national banks are instrumentalities of the National Government.

I feel sure some people feel that one system of banking, and that the national system, would be preferable to the two systems which we now have. Possibly some people may think our system of government would be better if we had simply a National Government and no independent State governments, but the great majority of our people are in favor of two systems of banking. This is evidenced by the great volume of business handled by the State institutions.

I have no prejudice against the national system and most of my active banking experience has been as a national banker, and to my mind, to say the least of it, the merits of the national system and its advantages are equal to those of the various State systems. There are advantages inherent to each system and these advantages can not and should not be destroyed by law as they are for the best interests and welfare of the banking public. The closer personal, sympathetic, and more understanding supervision of the State banks is a very decided advantage to both the bank and the customers of the bank. On the other hand, the unity of the national system and the stability and uniformity of the laws and the supervisory powers are inherent advantages to the national system.

The two systems working side by side with healthy competition have created a banking condition in this country which has contributed largely to the prosperity of this country and the development of its virgin resources to the distinct advantage of the people of this country and an unparalleled progress and rapid development of the resources of our country has been the result. Banking policies and practices which have emanated from the comptroller's office, and especially many rules and regulations of the Federal reserve banks have done much to raise the standard of banking in this country. The State banks have been benefited along with the national banks as they have had to raise their standards and meet this healthy competition. On the other hand, the fact that national banks have had State banks as competitors has had the salutary effect of keeping the banking business closer to the people and more responsive to the people's needs.

The two systems working side by side have demonstrated that commercial transactions growing out of production, manufacturing, and transportation of goods and commodities from one section of the Nation to the other are not now hampered but can and are now being handled satisfactorily by banks in each system.

The two systems of banking are in keeping with our form of government. One system is a check on the other, and having the State banking system prevents the banking business from becoming too autocratic and the national system prevents the State banks from becoming too loose and lax in their practices and have done much to unify and standardize banking methods and policies in the several States.

Our country has prospered well indeed under the two systems. Certainly our national progress and national wealth compare favorably with other nations having but one system.

Branch banking, when permitted to extend beyond State lines, will result in but one form of banking. We have but to look to

Canada, England, and other countries to see that this will be the result.

The second point urged against the present system of unit banking system is that the unit banking system has broken down and is not furnishing adequate banking facilities to smaller banking communities, especially in the agricultural sections. I do not subscribe to this view of the situation. Our unit banking system has not failed and is not breaking down but is making vast strides keeping pace with the rapid development of the country in general and with other business organizations. As proof of the failure of the unit system the Comptroller has submitted figures showing 5,640 bank failures in the United States since 1920, the deposits in these failed banks amounting to \$1,700,000,000 and the number of depositors suffering losses in these institutions numbering 7,264,957. These are large and imposing figures and are likely to create the impression that unit banking is more hazardous than it really is. As a matter of fact the banking business in this country is the safest business, for the safety of the creditors, that we have, and as a matter of fact it should be the safest business we have.

Mr. Pole further states that the recovery to depositors of failed national banks equals 80 per cent; in other words, the loss was 20 per cent.

One billion seven hundred million, the amount of all deposits in all the banks that failed during the last nine years divided by 7,264,957, the number of depositors, equals \$234 as the average deposit of each customer in all of these failed banks. Each depositor recovered 80 per cent of this \$234, which is \$187.20, which subtracted from \$234 leaves a loss to each depositor of \$46.80. Not a bad loss to the banking public during the 9-year period following the deflation beginning in 1920.

Risk can not be eliminated from business, and banking is no exception to that rule. Please do not misunderstand that I look lightly upon bank failures and their results. I deplore them as much as any member of this committee and as much as the comptroller himself, but I do know the bad results have been greatly exaggerated and I do know the people of this country lost many times as much money by reason of investments in land and in stocks of various kinds, and while I do not have the figures and do not know that they are available, I am inclined to think that very comparable losses were occasioned by investments in Liberty bonds, direct obligations of our great country, by reason of having paid par for these bonds and having to sell them as low as 82 and 83 cents on the dollar. The loss to many purchasers of Liberty bonds amounted to \$18 for each \$100 invested and the depositors in the failed banks of this country during the last nine years have lost \$20 for each \$100 of deposits in those banks.

We must not lose sight of the fact that for several years prior to 1920 we were operating under an unusual and unprecedented period of inflation. Beginning in 1920 and thereafter we were operating during a period of unusual and unprecedented deflation and great losses were inevitable in all lines of business. As stated above, we know that many, many purchasers of Liberty bonds, the obligations of this great Government of ours, lost a great deal of money, yet I have heard no one suggest that we change our form of government to correspond to that of Canada, England, France, or other countries.

Mr. BRAND. I did not get that.

Mr. FENN. Will you say that over again?

Mr. SHULL. I had previously brought out the fact that the people had lost money in the purchase of Liberty bonds, but that has not been given as a reason why we should change our form of government.

The fact that seven and one-quarter millions of people, or 18 per cent of our population—and I am just approximating those figures—incurred a loss of \$20 per head by reason of their deposits in failed banks is not so alarming as we might think, and creates no banking situation demanding a change. These losses were inevitable and small indeed compared with the losses in other classes of investments. The losses in land, in cattle, in wheat, in corn, in horses and mules, in every conceivable form of investment in each community, even losses in Liberty bonds, were reflected to a greater or less extent in each bank serving each community.

I have heard much said depreciating the ability of the small-town banker. This opinion of his ability or lack of ability has arisen since 1920. Before that he was considered a respectable and fairly average capable citizen and good banker, but his bank has failed and they are still failing. I want to make this statement, that I am fully convinced that better than 95 per cent of the bank failures since 1920 were caused, and are really traceable to the abnormal inflation and abnormal deflation caused by our late war conditions.

In Oklahoma—and you will pardon me for referring to Oklahoma for naturally my sources of information come mostly from that State—only five State banks which were organized since January 1, 1920, have failed up to this time. All other State banks which have failed in Oklahoma during this 9-year period were those chartered prior to that date and of course those affected by the conditions existing during the inflation and deflation period. One hundred and seventy-four State banks failed during this period and only five failures of banks chartered after that period of deflation began have failed, showing 98 per cent of the failures were caused as a result of conditions brought about by the war and 2 per cent which you could say were not caused by this same reason.

Lately we had 12 banks to fail in one day, each one of these in better shape the day they failed than they had been any time during the last 10 years, and each failure caused by the result of war conditions.

Lately a national bank failed in our State, the continued condition of which during the last 10 years I happened to be acquainted with and I am sure it was in better shape the day it failed than it had been for 10 years, but it had lots of losses in its assets dating back to the war period which simply could not be eliminated. War conditions brought about losses, abnormal and unprecedented and inevitable losses, and a great per cent of the bank failures are directly traceable thereto.

Much has been said about the earning ability of small banks, especially in agricultural sections. Of course, my source of information comes solely from my knowledge of State banks in Oklahoma.

I have had prepared an analysis of the earnings of Oklahoma State banks for the year 1929. We have 325 State banks in Oklahoma at this time; 199 of these banks paid dividends during the year 1929; 126 did not. Sixty per cent of the banks did pay dividends. The average net earnings of the State banks in Oklahoma on their capital

stock for 1929 was 16.6 per cent. The net earnings figured against the capital and surplus was 12.6 per cent. Dividends paid figured against the entire capital stock of all the banks equaled 11.2 per cent.

Those percentages were figured counting all the capital stock of all the banks in the State, whether they paid dividends or not, and the average was 11.2 per cent.

Group 1. I have had analyzed the net earning capacity of banks according to size of capital stock. Banks having a capital of less than \$25,000 earned 17.9 per cent on the capital stock and 14 per cent on the capital and surplus. Dividends paid last year by these small banks equaled 11½ per cent on the capital stock of all banks in this group. Of this class of banks, 221 in number, 131 paid dividends; 90 did not; or 60 per cent paid dividends.

Group 2. Banks having capital of \$25,000 up to and including \$50,000, number 89, 64 of which paid dividends; 25 did not, or 70 per cent of which paid dividends. Net earnings on the capital stock of these banks equaled 17.7 per cent. Net earnings on the capital and surplus equaled 13½ per cent. Dividends paid last year equaled 11½ per cent on the capital stock of all banks in this class.

Group 3. Capital stock in excess of \$50,000. Number, 15. Four paid dividends, 11 did not, which equals 26.6 per cent paying dividends. Net earnings on capital stock 12.6 per cent. Net earnings on capital and surplus 9½ per cent. Dividends paid equal 10½ per cent on the capital stock of all banks in this class.

Remember, we have 325 State banks in Oklahoma; 199 paid dividends; 126 did not. Out of the 126 banks which did not pay dividends, only 8 were chartered since 1920 and 3 of these 8 were chartered during 1929 and 1 during 1928, and these 4 banks would not be expected to pay dividends so soon after their organization, thus leaving only 4 State banks in Oklahoma organized since 1920 which did not pay dividends. This all goes to show that the failures in our State banking system in Oklahoma and the present dividend-paying ability or earning ability are directly chargeable to war conditions rather than to banking ability or local conditions.

You can not, in my opinion, get away from the fact that war conditions are still causing the trouble we are having to-day in our banking situation; not 100 per cent, but very nearly that per cent. The failures we will have for the next few years or so will be traceable to the same cause.

There is no need to change our system of banking. What we should do is to improve the present system where possible, and in my opinion the bankers of this country are doing that very thing themselves. Our country bankers are able to meet the present day local demands of banking. They are wide-awake business men and have revised their business methods to meet the changes which have occurred in economic conditions.

Our records show that out of 151 State banks organized in Oklahoma since January 1, 1920, 5 have failed during this 10-year period. Not perfect, but, to my mind, a very good record.

Branch banking will not stop the failures of banks which are yet to come, because of war conditions. These large branch banks will not acquire these particular banks on account of the condition of their assets. In my opinion, it will cause the failure of some of these

banks still carrying on and still having losses in their assets chargeable to war conditions and which in many instances may be able to pull through. My reason for this is that if branch banking is permitted, there will be many instances where a branch office will be opened in the community where these banks are now operating and thus deduct from their volume and lessen their possibility of working out of their trouble.

My thought is this, that there will be a great many points where it would not be possible to get another bank chartered there, but it would be possible to get a branch; in other words, it might justify a branch office of some large bank, but it would not justify two unit banks there, and my thought is that this branch office will finally get established in such points as that.

Canada has had some bank failures. I understand a bank there having about 80 branches failed. I further understand there are about 12 or 13 banks operating in Canada. This would show 1 bank out of every 13 failing. I further understand another large branch bank with between 300 and 400 branches was on the point of failing and the Canadian Government donated \$15,000,000 to enable another banking institution to take it over. I further understand that three banks in Canada do a very large per cent of the banking business of that country. Statistics will show the per cent.

I have seen the percentages, but they were not available to me at the time I secured these figures.

In 1885 Canada had 41 banks. They now have 12 or 13, with 3 doing a very large per cent of the business.

England has, I understand, 20 banks, with 5 doing a very large per cent of the banking business of that great nation.

How can we imagine that branch banking will decentralize banking business in this country? Admit, for the sake of argument, that branch banking is safer than unit banking. I am not admitting this and would like to see a comparison of the failures in Canada on a percentage basis, compared with the failures in this country. I would like to have the committeemen get those figures; it is not possible for me to get them.

But, admitting there is some greater degree of safety in branch banking, there are other advantages to unit banking which offset the additional risk, if any. There is no doubt that the unit bank is more responsive to the needs of its customers in the smaller community, both to the borrowers and the depositors. There is no question that the people who live in the very communities which Comptroller Pole states has need of branch banking facilities do not want branch banks and are, in fact, opposed to them and are decidedly in favor of unit banking. These people realize that even if not as safe, the small risk incurred in the unit bank is worth the money and that the extra safety, if any, is offset by the local independence and self-development which the unit bank encourages and makes possible. This idea is deeply ingrained in the minds of the American people. These people realize that they will not receive the banking accommodations to which they are entitled and can obtain from the local banker who knows them intimately, who knows their integrity and ability. I have reference, especially, to the average citizen in the smaller communities. They know that the result will be that branch banking will gladly take their deposits and in many, many instances will not

loan the small borrower the money to which he is entitled, especially the small farmer and the small merchant.

We know, further, that the independence of hundreds of country bankers will be lost under this system and I firmly believe that if branch banking is once adopted on the plan outlined, that we have committed ourselves and this Nation to a policy which will bring about centralization of wealth in the hands of fewer people and will be the greatest stride this Nation has ever taken toward the elimination of the greatest asset to the middle class, the small and worthy individual comprising the great and large per cent of the citizenship of this country.

From the standpoint of safety alone, nation-wide branch banking is preferable to trade area branch banking. More diversity in investment would follow in nation-wide branch banking. I am firmly convinced that if we had, during the war period, branch banking in trade areas, and if these banks had served their communities with banking facilities as was necessary during the war period, many of these banks would have failed also.

The greatest reason for greater safety to branch banking on a nation-wide scale, is the fact that the few banks we would have under this system would be so large that the results of their failure would be so great and so nation-wide that the National Government would have to step in and save them, as was done in Canada, and I understand, in other countries. This, of course, is paternalism, and around the corner is socialism.

Branch banking is all right for the people who are accustomed more or less to a monarchical form of government, but the people of this country are not ready for it and the business conditions of this country do not demand it.

The Canadian Government guarantees bonds issued by some of the railroad companies and some of the bonds issued by municipalities. Great centralization of banking with branch banking fits into their scheme of government, but not ours.

Group banking has been in vogue in this country for years and many failures have occurred in operating groups and chains. The recent enthusiasm for group banking has, in my opinion, been occasioned by the thought of the possibility of branch banking. Many enterprising and ambitious people are entering the group banking field, with a view to selling out to larger branch banking organizations which will be in operation, if permitted.

In submitting figures showing the growth of branch banking in this country, these figures are, to my mind, misleading. For instance, since the passage of the McFadden act the large national banks in New York and other cities have established branches in other points in the city. The resources of this large bank have been transferred from the unit-banking column to the branch-banking column. This character of branch banking is not the kind of branch banking now under consideration. These so-called branches in the same city as the parent bank are no more than offices. The parent bank is no more doing a branch banking business than it was before. It is still serving the same community and the same customers that it was serving before. That is not the kind of branch banking we are talking about now.

Judging from the figures given for Oklahoma, chain and group banking have not made the inroads into our banking that the figures would indicate. We do have one group-banking organization, and only one, and I think it has probably 20 banks, in quite a number of which they are not owners of a majority of the stock; in other words, the majority of the stock is not owned by the holding company, and quite a few of these banks that are now in the group were in a chain system before.

I notice listed 15 chain banks under the Thurman Bros. in Oklahoma. As a matter of fact, there are three or four of those brothers that own a control of those banks, but those banks are operated absolutely as unit banks. I would not class them as chain banks. Technically they might be, but in operation they are not.

Mr. Douglas, of Shawnee, owns nine banks which can be classified from every standpoint as chain banks, and R. A. Vose is interested in three, but does not have a controlling interest in all of them, the banks being absolutely operated as unit banks.

Gentlemen, this is about all that I am prepared to say on this subject. I did not have as much time to devote to the preparation of my remarks as I would have liked to have had, for I did not get the notice to come until a short time ago, and meanwhile had other duties to perform.

Mr. STRONG. I would like to ask you with respect to the amount of money involved in State and national-bank failures prior to 1920. We have had a good deal of testimony regarding bank failures from 1920 to date, but what do you say about the situation prior to that time?

Mr. SHULL. The only information I have on that is that I noticed in Comptroller Pole's figures that he furnished to the committee that there had been a great many more State banks that failed than national banks, and that is true. Somebody on the committee asked him to furnish the amount involved in dollars and cents in the failures of banks under these two systems, and if that information was ever furnished, I was not able to find it in the proceedings that were furnished to me. I would really like to see that information furnished.

Mr. STRONG. Mr. Awalt, do you know whether that information has been furnished or not?

Mr. AWALT. The comptroller did not have the information from State banks.

Mr. STRONG. And he can not get it?

Mr. AWALT. As far as I remember it, we did not have the figures for State banks, nor did the Federal Reserve Board have them.

Mr. STRONG. Did not the comptroller furnish that from 1920 to date?

Mr. AWALT. The number of failures, but I do not think he furnished the amounts.

Mr. WINGO. What I think Mr. Shull has in mind is this, that the comptroller furnished the numbers and pointed out the fact that, measured by numbers, there had been more failures in the State banking system than the national, and Mr. Shull suggests that if we will procure information showing the volume of banking assets, and not simply the number of banks, there would be a different comparison.

I presume that the inference you want us to draw is that, measured by assets, there was not a greater volume of banking assets involved

in the State bank failures during that period than in the national bank failures, though the number of units was greater.

Mr. SHULL. Yes. I would just like to know. I do not know.

Mr. WINGO. That would be interesting.

Mr. CHAIRMAN. I am wondering if Mr. Awalt could not procure from the State bank commissioners the figures on that, so as to make that comparison.

Mr. STRONG. I hope that, if he can, Mr. Awalt will do that.

Mr. AWALT. I understand that the Federal Reserve Board is in the process of getting that now and it will be furnished to the committee, but it will take some time.

Mr. WINGO. I wish, if you would, that you would get for us that information. However, I understand that the information that they are preparing is for the Senate committee and that they do not intend to complete it before the expiration of this Congress. It ought to be furnished at this Congress.

Mr. STRONG. It would not take very long to write to each one of the banking commissioners of the States for that information.

Mr. WINGO. My point is that they would include it with a whole lot of other information that they expected to procure, but we ought to have this information right away.

Mr. STRONG. Yes; we ought to see what the loss to the Nation was in money, not in number of banks, by reason of failures.

Mr. WINGO. I do not know what it would be worth, but we ought to have that point of comparison.

Mr. AWALT. We will try to get it.

Mr. STRONG. All right.

Mr. Shull, I would like to have you give us your comment on the condition in which a community finds itself when a bank fails, whether the failure of a bank robs the community of much of its assets, or what the situation is, in your opinion, in a community when a unit bank fails.

Mr. SHULL. I see. Well, I should say this: Of course, we do not like to figure on a system on the basis of taking care of failed banks as much as we do in keeping them going, but I would like to say this, that if you do have a failure of a big branch bank the damage to the scattered communities would be worse than the failure of a unit bank operating in a community, because of the fact that in a unit bank operating in a community, naturally the larger percentages of the loans are made to the citizens of that community and the money is still there in that community somewhere. It may have changed hands from one fellow to another, but still the money is in that community, and my idea is that the individual community would be hurt less by that.

Mr. STRONG. By the failure of a unit bank than by the failure of a branch bank?

Mr. SHULL. I think so.

Mr. STRONG. We have had a good deal of information here about trade areas. Will you give us your idea upon that proposition?

Mr. SHULL. Well, I think Comptroller Pole has probably given about the best description of what a trade area is that you have had. I think I made a note of it somewhere. He said that "A trade area is that geographical territory which embraces any city's flow of trade."

I think that it has been demonstrated by the number of questions asked on that point that it is pretty hard to tell what a trade area is. and I think unquestionably that granting branch banking privileges on that basis would cause a great deal of conflict of territory. It seems to me that it would be very easy to point out that the entire United States is in the trade area of New York City, because our little merchants in the little country towns in Oklahoma and in that western country come to New York regularly to do their trading.

Mr. STRONG. They come about once a year?

Mr. SHULL. Once or twice a year.

Mr. STRONG. To buy their stocks?

Mr. SHULL. Yes, sir.

Mr. STRONG. And they also go to Chicago.

Mr. SHULL. Chicago and St. Louis.

Mr. STRONG. And in the meantime they go to Kansas City.

Mr. SHULL. Yes; a few of them down there do.

Mr. STRONG. So that the proposition of trade area, followed to its logical conclusion, would simply mean nation-wide branch banking?

Mr. SHULL. I think so.

Mr. STRONG. In your opinion, will branch banking tend to decentralize, either nation-wide branch banking or trade-area branch banking?

Mr. SHULL. I certainly think it will not. We only have to look to other countries which have branch banking privileges to see that the number of banks operating is becoming smaller and smaller each day and covering a wider territory.

As I said before, Canada has three banks doing a very large percentage of the business. I wish I had the figures, but I am sure it was better than 75 per cent of the business of the country, and five banks in England are doing the same thing.

I think the Federal reserve system of this country has done much toward decentralization.

I have noted with a good deal of interest the gain in total resources of banks at different points as brought out in somebody's testimony here before the committee; I think Comptroller Pole's—for instance, Detroit had gained 46 per cent; Dallas, 437 per cent; Atlanta, 234 per cent; Cleveland, 225 per cent; Chicago, 210 per cent; and Minneapolis, 284 per cent. It seems to me that our present Federal reserve system has done much along that line.

Mr. STRONG. What do you think will become of the Federal reserve system if we have nation-wide branch banking?

Mr. SHULL. Well, I do not know. My personal opinion is that in the course of years—I do not know how long, for we do things pretty fast nowadays—we would have a few large banks in this country and would not have the need for the Federal reserve system that we have to-day.

Mr. STRONG. And they would rather dominate and overpower?

Mr. SHULL. I understand that in Canada—and, of course, the things I am giving I would like to have checked up, because my information is not definite information, but I have read it from reliable sources that they virtually have no supervision of the banking business in Canada, that the Government does not. If I am not mistaken, they just make a report about once a year, and they have virtually no supervision as we understand it in this country.

Mr. GOLDSBOROUGH. Mr. Chairman, I would like to ask one question there.

Isn't that because, instead of the Government being able to control the banks, the banks largely control the Government?

Mr. SHULL. Yes; they are just in absolute partnership.

Mr. GOLDSBOROUGH. Assuming that it is conceded that branch banking is becoming more and more necessary, with which proposition I do not agree, do you not believe it would be better for metropolitan banks to be allowed to establish branches within their areas, and then have the rural districts conduct their own branch systems, disconnected from any metropolitan banks?

Mr. SHULL. Well, I have thought about that a great deal. I think that unquestionably there are some advantages to branch banking, and I think branch banking in large cities is good, but I do not think branch banking should ever be permitted to cross State lines. That is my idea.

Mr. GOLDSBOROUGH. But if you allow branch banking to be on a state-wide basis, is there not bound to be some legislation which will allow it to cross the State lines?

Mr. SHULL. It is pretty apt to come.

Mr. GOLDSBOROUGH. Now, with respect to the definition of the term "trade area" which you referred to a moment ago as involving the city's flow of trade, the necessary implication being that Mr. Pole's idea of a branch banking system is a system which has its inception in the cities, do you think that is necessary at all? Do you not think that sufficiently strong branch systems could be set up in the rural districts without having a parent bank in a city?

Mr. SHULL. Yes, sir; I do.

Mr. STRONG. I want to ask you now about that supervision. You have charge of the supervision of banks in your State. What is your opinion as to the ability of a superintendent of banks to examine large systems, when they have 1, 2, 3, or 100 banks?

Mr. SHULL. Well, I attended the supervisors' convention of all the State bank commissioners of the United States held in San Francisco this last summer, and while there I had occasion to talk with, I think, the chief auditor of the State banking department of California, and he told me that in the examination of chains in that country, of branches, that they paid very little attention to the actual audit of the bank. You understand that an examination of a bank by a State department comes under two heads, one an audit and the other more of an analysis of its solvency, and he said that it was absolutely impossible for them to go very far into the auditing part of branch banking, that they left that principally to the auditing department of the parent institution.

Mr. STRONG. Of the branch bank itself?

Mr. SHULL. Yes, sir.

I would like to state further along that line, since you brought it up, that I noticed in Mr. Pole's discussion of that that he admitted that it would virtually be necessary for his office to be examining those banks all the time, almost a continuous examination, which to my mind suggests that you just have that department helping to operate those banks, and you are getting the Government right in the banking business.

Mr. STRONG. Have you any suggestion as to what policy might be used to strengthen the banks of the country?

Mr. SHULL. Well, I do not know whether I have anything that is practicable or not. I have one pet theory that I have thought about.

Mr. STRONG. The committee would like to have it.

Mr. SHULL. I have often wondered, in the organization of a bank, if it would not be possible to provide that each stockholder, in addition to paying in the capital and surplus required, should purchase an equal amount of good bonds, of a class to be determined, of course, to be deposited by a national bank with the Comptroller of the Currency and by a State institution with the banking department of that State, as a guarantee to taking up losses as they occurred. Now, banks do not fail over night; it is a trend that a certain bank gets into, usually, that causes failure. I am talking now about normal banking conditions, and eliminating the war period. It is a trend that a bank gets into, and many times in my department, and I am sure in others, we realize that we should levy assessments before we do, but for various reasons we do not do it; the banker thinks it will ruin his business, break him, and we do not do it, and the trend of his business, instead of getting better, gradually gets worse, and the first thing that happens, we wake up and his capital is lost.

Now, if these bonds were pledged with the banking department, the loss in that bank could be taken care of gradually out of the sale of those bonds, and then whenever those bonds got down to a point, say, of 50 per cent of the amount originally deposited, you could require them to replenish.

I do not know whether that is a practical idea or not. As I said before, you can not eliminate risk from business altogether.

Mr. STRONG. It would tend to bring the stockholders to the important realization of the fact that losses were occurring and cause them to take more interest in the affairs of the bank, would it not?

Mr. SHULL. Yes, and one of the biggest things about it that I did not mention was the fact that it would assure you of a better class of stockholders than you now have. There are a great many people that in the organization of a bank have become interested in it through stock ownership that have no interest in the banking business at all, and this would tend to prevent that kind of a citizen from becoming interested in the organization of a bank.

Mr. STRONG. We have had a good deal of controversy before this committee regarding the taxation of banks. I would like to ask you if you have any views in that regard.

Mr. SHULL. I have been bank commissioner about two years and a half, I think, in Oklahoma, and I have advocated how I think banks should be taxed. I think it would be right and equitable for banks to be taxed at about 60 cents on \$100 of their capital stock; that is about in line with other taxable property on an ad valorem basis. Then I think that the surplus of a bank should be exempt from taxation, or certainly only a very small amount of tax levied on it, perhaps as much as is levied against money in the different States, which in our State is two-fifths of 1 per cent, I think, provided the bank carries a certain per cent of its earnings to the capital each year until it got equal to the surplus.

In our State our court has just lately rendered a decision that is favorable to the State banks, because we have a law to the effect that you can not tax a State bank greater than a national bank; that

you can only tax bank stock on a basis equal to money in banks, deposits in banks, which is two-fifths of 1 per cent, which virtually means we do not have any taxation against bank stock.

Mr. STRONG. You do not think that the capital of banks should be put in a preferred class, do you? You think that it ought to pay the same rate as other property?

Mr. SHULL. I do; and I want to say this in fairness to the bankers, and, as I said before, I am giving you more or less the localized viewpoint, because that is all I have, but the bankers of my State are very much in favor of paying a just and equitable tax. They think they have too much relief now. They felt until this court decision that they had been taxed too much, and they know that we have gone too much in the other direction now and they want to pay an equitable tax, and I think the bankers in other States feel the same about it.

Mr. STRONG. What do you think of applying Gresham's law to the banking proposition?

Mr. SHULL. Well, I noticed that something was said about Gresham's law in these hearings. I believe the idea of Gresham's law is that the baser metal drives out the good, and I was rather surprised to see it applied to banking. However, I think it was brought out later in the controversy that it did not apply to business but simply to metals, and certainly banking is not metals; its chief business is not to deal in metals but in credits. It is a business like any other business, and I think it was brought out in the hearings here that that theory worked adversely in business, and I think it would have no application.

Mr. WINGO. If I may say this, others referred to that, and I think I referred to it in this connection, that a superior service and better quality of goods had a tendency to drive out of existence the competitor who dealt in the inferior service and the inferior quality of goods, and I think I incidentally remarked that was just the reverse of Gresham's law, that, in so far as metal and money are concerned, the baser drives out the superior, whereas in business service and quality of goods, the superior drives out the baser.

Mr. SHULL. Yes, sir. I do not know who brought it out, but I know some one did, but my point is that I do not think it has any reference to the banking business. I may be mistaken about that, but that is my idea.

Mr. WINGO. I still seem to be able to make myself understood. I did not say that.

Mr. STRONG. I know you did not.

Mr. WINGO. The point I made was this, that it was just the opposite applied to business, that in business the superior drove out the inferior, whereas in currency the baser drove out the superior.

Mr. SHULL. I agree with you on that; yes, sir.

Mr. WINGO. It is just the reverse of Gresham's law.

Mr. SHULL. Yes.

Mr. STRONG. What do you think the States will do if Congress acts favorably on a law to permit nation-wide branch banking?

Mr. SHULL. Well, I think unquestionably the States would follow suit in allowing branch banking within their States, and possibly there would be some attempts made to allow banks in different States to reciprocate with each other across State lines.

Mr. STRONG. And it would eventually result in nation-wide branch banking?

Mr. SHULL. Yes; a bad condition, I think.

Mr. STRONG. You have pointed out that in England they only have five banks with 8,000 branches, and in Canada, only three large banks with numerous branches, and that they exist in countries where they have practically two classes of people; that the middle class in these countries is largely eliminated. Do you think the establishment of nation-wide branch banking in this country would tend to eliminate the middle class here?

Mr. SHULL. I think it would be the biggest step this country has ever taken toward decentralization and toward making it impossible to insure that the smaller business interests in this country would get the line of credit that they are entitled to.

Mr. STRONG. The trend now is toward mergers and chain stores—big organizations. Do you think that if we permitted a banking system that would eventually result in a few banks having control of all the money and credit that the outcome would eventually be that the middle class of people in this country would be eliminated as they are in other countries? Is that your idea?

Mr. SHULL. I think it would be the biggest step we have ever taken in that direction.

Mr. STRONG. Mr. Wingo wishes to question now.

Mr. WINGO. I just desire to ask a few questions. Just take the question you have just left, that of banks having branches established beyond the State line; that is, by State charter: You said something about reciprocity between the States. What did you mean by that?

Mr. SHULL. I meant it would be possible—at least I think it would be possible for the State of Arkansas, as I believe you are from Arkansas, to allow a bank in Oklahoma City, we will say, to establish branches in your State provided the State of Oklahoma would allow a big bank in your State to do a branch banking business in Oklahoma.

Mr. WINGO. You are not a lawyer, are you?

Mr. SHULL. Well, I graduated from a law school and I practiced some, but I do not claim to be much of a lawyer.

Mr. WINGO. I was under the impression you were not a lawyer and I was prepared to ask some questions that you would not appreciate if you were not a lawyer. If branch banking is a blessing and a good thing, why confine it to geographical limitations?

Mr. SHULL. I tried to bring that idea out in my talk at the start. I think we might as well face the proposition and look at it as a nation-wide branch banking, because you will remember that Mr. Young's testimony virtually admitted it would come to that. He said that it would take 50 years, but it is a matter of opinion whether it would be 25 or 50 years.

Mr. WINGO. Well, take as a practical proposition, two towns in my district—two largest ones—Texarkana and Fort Smith: If branch banking is a good thing, why say to the banks of the city of Fort Smith that "You can not cross the river to a town on the other side of the river in Oklahoma and establish branches there?"

Mr. SHULL. As a matter of fact, they do own several banks in Oklahoma.

Mr. WINGO. You mean gentlemen connected with them——

Mr. SHULL. It is a chain proposition; I mean the head officers. For instance, the First National Bank of Fort Smith owns the controlling stock in several banks of Oklahoma.

Mr. WINGO. You do not mean the bank itself owns that controlling stock?

Mr. SHULL. No——

Mr. WINGO. You mean the dominant persons in those banks in Fort Smith are also stockholders in smaller banks in your State?

Mr. SHULL. Yes, sir.

Mr. WINGO. You say the First National. Mr. Nakdimen, of the City National also owns some, does he not?

Mr. SHULL. Yes, sir.

Mr. WINGO. You do not call them chain or group banks either?

Mr. SHULL. I have not thought about what I call them.

Mr. WINGO. What they set up is this, that they are separate corporations, of course——

Mr. SHULL. Yes, sir.

Mr. WINGO. Some National and some State banks?

Mr. SHULL. Yes, sir.

Mr. WINGO. And the same man who is an officer or large stockholder in one of these Fort Smith banks is also an officer and, in some instances, a director in these State banks and National banks in your State?

Mr. SHULL. Yes, sir.

Mr. WINGO. But to get back to the proposition I started on, if it is a good thing, and aside from that barrier, I have not found out what is the argument in favor of confining the blessings of this system of branch banking to any given geographical area. I can not catch the point. Have you heard of any reason for it? You suggested you thought it should be confined to State boundaries. I wondered what reason you had in mind for that?

Mr. SHULL. Well, there are communities, in my State, and I am sure in other States, that have no banking connections or facilities. Some have them, but they are, in reality not supported, and I wonder some times if it would not be all right to permit a bank at a county seat to establish offices out in other towns in the county, to say the least. I do not know how much further it should go than that.

Mr. WINGO. In other words I think the thought that is back in your mind is that you would maintain more of an intimate connection and intimate knowledge of conditions to be met and the services to be rendered, by confining it closer to the parent bank?

Mr. SHULL. Yes, sir; a more localized community.

Mr. WINGO. What is there in the present decisions of the courts that would prevent a bank in Oklahoma or in Delaware from establishing branches in States whose corporate laws authorize the domestic banks to establish branches?

Mr. SHULL. I could not tell you.

Mr. WINGO. It is all governed by the decisions of the courts in reference to foreign corporations coming into the States and doing business, is it not?

Mr. SHULL. Yes, sir, but there is a special statute on banking, you know. It does not come under the general corporation statute—the banking privilege of our State.

Mr. WINGO. Suppose they tie up, like the telephone and telegraph companies did. Take the Western Union: The Western Union is the one that tested what is known as the Wingo Corporation Act, of which I was author, when I was State Senator, governing corporations coming into the State and doing business. Suppose some Oklahoma banking corporation got control of some banks in my district, in Arkansas, and subsequently they wanted to make them branches and went into the court and showed they had established their business there and made the same plea that the telephone companies did—set up that they are engaged in interstate business: Have you any reason in your mind, as a lawyer, why the modern trend of the Supreme Court would not hold that the State laws could not discriminate against them by classification of business?

Mr. SHULL. Well, of course, you have asked me quite a legal question and my thought is this, that the only right to establish banks in the several States is purely a statutory right and there is a special statute on banking in my State and in most of the States, I presume, and that statute would govern the organization of a bank.

Mr. WINGO. It is true we used to have the idea that a State could determine whether or not a foreign corporation could come into the State and do business, but we have had to modify that to some extent, have we not?

Mr. SHULL. I think so.

Mr. WINGO. Well, take the trade area. You have read the definition of the trade area that Mr. Pole gave. Under his definition and the rule he lays down, Oklahoma would be included in the trade area of Kansas City, would it not?

Mr. SHULL. Oh, no; I would probably say more so in St. Louis. St. Louis does a great deal of business in Dallas and a great deal of business in Wichita, Kans.

Mr. WINGO. Kansas City merchants—

Mr. SHULL. The western parts of the State would deal with Kansas City and the eastern parts of the State with St. Louis.

Mr. WINGO. In the eastern part of the State, Kansas City merchants have a big business in Oklahoma and as far south as Grannis on the Kansas City Southern—Grannis, in Arkansas, and as far down as DeQueen. They call that their trade territory. Their business is done there. I mention that to get your view on this, that if you undertake to say the trade area shall be the rule, necessarily that would be a fluctuating rule, would it not; that the boundaries would have to be changed to meet the fluctuating trend or course of trade and commerce?

Mr. SHULL. Yes, sir; and there would be a very great overlapping of territory.

Mr. WINGO. Could you conceive of a legislative rule to be laid down? Would it not be necessary to leave that to a bureau to define, and, in the last analysis, would it not practically mean nation-wide branch banking?

Mr. SHULL. Yes, sir; I think the only way you could define it would be just an arbitrarily defined area.

Mr. WINGO. I was interested in two of your suggestions, and I want to see if I understood you correctly. One was that you had studied your banks and that the failures that had been taking place

in recent years were not in the banks that had been recently organized—that is, the abnormal percentage of bank failures—and that this abnormal rate had been confined to those banks in existence prior to 1920?

Mr. SHULL. Yes, sir.

Mr. WINGO. And that the failure of those banks that were organized and in existence prior to 1920 was occasioned not by any new business so much as it was by the continued hangover of paper and credits that they had extended or acquired prior to 1920?

Mr. SHULL. There is no doubt about that in my mind.

Mr. WINGO. I had been told that it was true in my State and I was interested in your suggestion that, as a matter of fact, banks failing in your State and in my district are not failing on account of any mismanagement or misjudgment of extension of credit in recent years, but because ever since 1920 they have been hoping against hope, renewing paper and getting interest whenever they could in dribbles on the principal, but finally they had to face the fact that it was hopeless and that they could never, however long they might carry some people, get cleaned out and they might as well clean house and acknowledge they were broke?

Mr. SHULL. I think you are right.

Mr. WINGO. Your contention is that, and you draw from that, that the cause of the abnormal bank failures in the small country banks throughout the agricultural sections of the country is not the failure of your present banking system to meet changed economic conditions, but that it was attributable mainly to the reasons you give, namely, the hangover, first of the inflation and then the drastic deflation?

Mr. SHULL. Yes, sir.

Mr. WINGO. I notice you grouped your banks into about three different groups. I think I gathered from your analysis that instead of the smaller banks being the less profitable, as we have been led to believe, in your State they seem to be more profitable?

Mr. SHULL. That is true; yes, sir; but I will find out for sure.

Mr. WINGO. In other words, you undertook to show how many had paid dividends. As I recall, there was a larger percentage of the smaller banks paying dividends than there was of the larger banks.

Mr. SHULL. The largest percentage of banks paying dividends was Group No. 2—\$25,000 to \$50,000 capital.

Mr. WINGO. In that group was there a smaller number than there was in Group No. 1?

Mr. SHULL. There is a slightly larger number paying dividends. In other words, 70 per cent to 60 per cent of banks less than \$25,000.

Mr. WINGO. The point I was trying to get at is this: Measured by total number of banks in groups, which was the greater, No. 1 or No. 2?

Mr. SHULL. No. 1, but I would hate to put that into the record without having the paper before me.

Mr. FENN. I think the reporter has it.

Mr. WINGO. The percentage you gave there was the percentage of the dividends on the whole system; you did not give the percentage measured by the capital of the banks that simply paid the dividends? You just took all the banks, did you not?

Mr. SHULL. I took all the banks, for instance, in Group 1, and figured the earnings against the capital stock in all of the banks in that group, and it averaged so much. If I figured just against the capital of a few of them, of course the figure would be very much different. The dividends were figured against the capital of all the banks in the particular group.

Mr. WINGO. Measured by the future stability of your banking system in Oklahoma, this abnormal number of failures in the last few years is attributable to the major causes which you described—the hangover of bad paper in 1920—and the fact you have finally cleaned house tends to give more stability in the future and promises fewer bank failures in the future, does it not?

Mr. SHULL. Yes, sir; but I will state this: We have not fully cleaned house 100 per cent yet.

Mr. WINGO. I realize that. You have still some that you think will have to face the inevitable. I will not say a lot, but several, as they have in all States, that are still trying to clean up. However, you have one abnormal condition that some of the members of this committee not acquainted with the conditions in our section, do not realize, that in four years in Arkansas and Oklahoma, you have faced a complete failure due to the failure of the cotton crop either quantity or price, and to floods and the depressed price of the cotton crop, and if you had had one good cotton crop in the last four years a large number of the banks that are failing would have cleaned up and gotten back on their feet?

Mr. SHULL. I think so; yes, sir.

Mr. WINGO. And the floods and the evil effect, first, of the inflation and then of the deflation, are more responsible in your judgment for the numerous failures in your State than any deterioration or failure of the banking system to adjust itself to changed economic conditions?

Mr. SHULL. Yes, sir.

Mr. WINGO. Now, you suggested, or named some chain banking systems in your State and I was struck by your failure to list some that I understood were chain banks and I will ask you to give your definition of the distinction between a chain and group system of banks. First, what do you call a chain bank? Let us get that first.

Mr. SHULL. Well, a chain bank, as I understand it and think of it, is a bank where one or probably several people own the control or exercise the control over a number of unit banks.

Mr. WINGO. Before you go to your definition of the group system of banks, will you state whether that is on the increase or decrease in Oklahoma?

Mr. SHULL. Chain banking?

Mr. WINGO. Yes.

Mr. SHULL. I do not think there is as much chain banking as there was 12 or 15 years ago in our State. I do not think there is.

Mr. WINGO. What do you define as a group bank?

Mr. SHULL. Well, a group bank is where a company owns stock in a number of different unit banking organizations.

Mr. WINGO. In other words, a holding company?

Mr. SHULL. Yes, sir.

Mr. WINGO. That has different unit corporations?

Mr. SHULL. Yes, sir.

Mr. WINGO. Is that on the increase or on the decrease in Oklahoma?

Mr. SHULL. We have one company of that kind in Oklahoma that has come into existence right lately. Probably 10 or 12 years ago there were several groups of banks in our State, but during the last four or five years, group banking has almost entirely disappeared in the State up until the late group was organized.

Mr. WINGO. Speaking about your tax proposition—and I will not pursue the matter any further—I was interested in the decision of your Supreme Court, under which your banks were relieved from State taxation. That was a decision some time last fall, as I recall?

Mr. SHULL. Yes, sir.

Mr. WINGO. It was furnished me by a gentleman who was interested in the exemption of national banks in my State from their new tax bill that passed the State Legislature. The real test should be, in your opinion, should it not, not so much the rate as the burden? It is possible for a bank or any other taxpayer to have the same rate applied to them yet, measured by the actual burden, the burden may be greater or less, may it not?

Mr. SHULL. I think the rate should be the same and the assessment should be the same as against other property taxed on that basis. That has been the trouble. Banks heretofore have been overassessed, compared with other property.

Mr. WINGO. To show you what I had in mind, I found, in examining some tables the other day, that the general counsel for the American Bankers' Association furnished us that whereas the national banks will not have to pay one species of taxation the State banks will in Arkansas, yet, measured by their earnings and possibly on one other basis, the percentage taken from their earnings by the State of Arkansas in taxes was greater on the national banks than on the State banks, whereas the popular impression is down there that national banks, by reason of developments, are bearing a smaller taxation than the State banks.

The point I have in my mind is that it is possible to have an apparent equality of treatment measured by rates, but when you come to measure the actual tax burden sometimes there would be a discrimination that would not be apparent upon the face of it; and in the last analysis, in Oklahoma and other States, is not this true, that the insufficiency and discrimination that takes place in the assessment is frequently a thing more to be condemned than any lack of uniformity or any discrimination that may exist in the law itself?

Mr. SHULL. Well—

Mr. WINGO. Take the other circumstance you cited, that you have been overassessing your banks measured by the way other properties have been assessed.

Mr. SHULL. Yes, sir; but all banks in both systems have been assessed alike.

Mr. WINGO. I am taking banking as a business and not distinguishing between banks, either State or national, because in your State you have a law that is different from the law in my State. Whereas in your State the very moment the court decides that the tax levied against a national bank can not exceed a certain amount—that is, a very small tax applicable to money and intangibles—under your State, the moment the national banks defeat the collection of that tax under another statute, the State banks get the benefit of that; whereas in Arkansas when the new statute conflicts with section 5219, as far as national banks are concerned, the State banks

do not get the benefit, but the State banks have to bear the burden and have to pay that tax. There is a discrimination and a distinction in the two States?

Mr. SHULL. Yes, sir.

Mr. LUCE. Bearing upon the situation of the depositors in these matters, will you tell us what reason you find in your community for the prevalence of a higher rate of interest at large than we have in the east. We understand the prevailing rates for money in the West and South are higher than in the East, and we were given to understand that if we had the Federal reserve system it would tend to equalize the rates of interest all over the country.

Mr. SHULL. Yes, sir.

Mr. LUCE. Why has it not been done?

Mr. SHULL. Simply for the reason that there is more money in the East and more demand in the West in proportion to the amount of money available than in the East.

Mr. LUCE. We were told when the Federal reserve system was established, that it would facilitate the flow of money back and forth over the country and that its transfer by telegraph and by the devices the Federal reserve system has followed, would make it as easy to borrow \$10,000 in Oklahoma as it is in Buffalo.

Mr. SHULL. I do not think you could expect the Federal reserve system to bring about just that result. I think the Federal reserve system has assisted in lowering the rates in the West and making the money in the East more available in the West, but the actual money owned in the West is less, in proportion to the demand than it is in the East. Individuals loaning money individually can simply get more for their money there, and it affects banking to some extent, too.

Mr. LUCE. The next question is: Do you share the apprehension that the creation of branch banking systems will result in bringing still more money into the East away from the West and, if so, how do you reconcile it with the higher earning power of money in the West?

Mr. SHULL. On account of the reason you have a greater risk there, especially for an organization in the East lending that money in the West. Unquestionably a local banker in a local community can lend money and be satisfied with it and do it more safely, whereas, when lending money away out of the territory, that can not be done. That is one reason why the money is cheaper in the East. The people have the money and they would rather lend it in the East than in the West. I think if you take it individually, you would rather do it. You would take the loan closer at home to people you know personally and intimately rather than lend it in the West at even a greater rate of interest.

Mr. LUCE. I find it hard to reconcile that with the recent era of stock speculation. Great quantities of money were pulled out of the West and out of the South into the New York market.

Mr. SHULL. Of course that was not an average condition; it was an abnormal condition.

Mr. LUCE. What opportunity does the man with a little money in Oklahoma have to share in the larger profits that are made by banks that charge higher rates of interest? To put it concretely, in my own neighborhood, in Massachusetts, the depositors in savings accounts,

get now from 4 to 5 per cent income on their money. How do you explain the fact we do not find that apparently in any of the smaller communities of the West?

Mr. SHULL. They do. That is the rate they get in our State—4 per cent. Our law provides that the banking commissioner shall fix the rate and that has been fixed at 4 per cent. The State bank is not supposed to pay more than that. However, some of them do do it where they have competition that makes them do it. But 4 per cent is the general rate over the State.

Mr. LUCE. To depositors?

Mr. SHULL. Yes, sir.

Mr. LUCE. Does your State give any particular protection to savings or time deposits by requiring their segregation?

Mr. SHULL. No, sir; they do not.

Mr. LUCE. We have thought, in the East, that there was a particularly sacred character, shall I say?—that is hardly the word—but that it was more important to safeguard the savings of the people than the money that is used for commercial purposes?

Mr. SHULL. I think there is good room for thought along that line. I think the losses to that class of depositors cause a great deal more harm than the same losses in the commercial department.

Mr. LUCE. Do you think that it would be probable or improbable that the development of either branch or chain banking would increase the safety of such depositors?

Mr. SHULL. Well, as I brought out in my talk, I think this: I think eventually the banking business of this country will be done by a very few parent institutions and I think the size and the result of a failure would be so big that probably the Government would step into the picture and, on that theory, make it safer. It would be so big you could not allow it to fail. I think that is the biggest element of safety that there is in it.

Mr. LUCE. It has been brought to my attention, outside of these hearings, that where branch banking is developing, there seems to be a tendency to cut out the little fellow as much as possible—I mean the small depositor. Do you think that is a probability, that when aggregations of banks become prevalent, they will make it harder for the man with a little money to do business with them?

Mr. SHULL. I think it will be a little more expensive for them to do it. I think they will always take their money, but as the large banks in the country are doing now, they will probably charge for taking their money. I think that will be enlarged upon. I think the greatest element involved is the borrower under our unit system, who is entitled to make loans. I think that privilege, to make small loans, will be taken from him.

Mr. LUCE. Your statement leads up to something that I wanted to ask next. There is growing dissatisfaction with the tendency of banks to slough off, so to speak, the small business; to refuse to carry accounts having small balances, or to impose something in the nature of a fee for the privilege of checking accounts for household purposes and other similar purposes of daily life. Is that noticeable in Oklahoma?

Mr. SHULL. Yes, sir.

Mr. LUCE. You think it is a good policy on the part of the banks?

Mr. SHULL. Yes, sir; I think it is worth the money.

Mr. LUCE. In other lines of quasi-public utility—for example, electric lighting, and the telephone as well as the purely public Postal Service—it has come to be recognized that it is just, wise, and profitable to maintain certain services at less than cost for the sake of the whole structure. Might that not also apply in banking?

Mr. SHULL. Well, I do not know. I do not think the condition of affairs in our State justify it. Personally, I have been advocating the putting on of a reasonable service charge, because the earning capacity of banks in our State is not as large as I would like to see it.

Mr. LUCE. But the little fellow is the fellow that becomes a big fellow in course of time.

Mr. SHULL. I had a man who came into my office recently to organize a bank and his thought was to run a bank without a service charge and I asked him what he would do if he was a merchant—would he sell his goods to a customer at a loss for a period of time on the theory that, after a while, the customer would buy from him on a profitable basis. I think that principle applies to banking. I think they are entitled to a legitimate profit on the service they render.

Mr. LUCE. Are they not, in their nature, quasi public? The argument has been advanced from time to time, that the public interest is greatly concerned with the present tendencies in banking and that they are not purely private institutions.

Mr. SHULL. I have never been able to conceive how you could consider them anything else. They get their charters from the State, it is true, but their business is really private.

Mr. LUCE. But have you any official charged with the supervision, for instance, of grocery stores?

Mr. SHULL. No, sir.

Mr. LUCE. Does not your very existence, as an official, show that the State is taking the ground that banking is quasipublic in its nature?

Mr. SHULL. I did not mean to convey the idea that it was not somewhat quasipublic in its nature. I did not mean to go that strong, but I think it is really over-emphasized on the other side too and that it is not as much so as some people think. I think banking is entered into by stockholders rightfully from the standpoint of legitimate profit. I think legitimate profits is one of the greatest safeguards that a bank can have.

Mr. LUCE. Did I correctly gather from something you said, that you are apprehensive that the development of branch and chain banking might result in more difficulty in the matter of getting credit by the small merchant or the rancher or farmer?

Mr. SHULL. Yes, sir; I think it will.

Mr. LUCE. I do not quite follow your logic there. You have led me to understand that the interest rate will be higher, or is naturally higher in Oklahoma than it is, say, in Pennsylvania.

Mr. SHULL. Yes, sir.

Mr. LUCE. Why would not a branch-banking system send its money where it could get the most profit on it?

Mr. SHULL. There is an element of risk and the knowledge of the risk that they are assuming, that would enter into that. The loans they would make in the territory, I am sure, would be made at as low a rate of interest or probably lower, but there are a great many loans

in the territory that a unit bank can safely make and that a parent or branch bank would not make.

Mr. LUCE. Gentlemen who have represented the present group systems have insisted that they would be just as liberal and anxious to do business in the small places as the unit banker has been.

Mr. SHULL. Well, I am giving you my opinion and I have talked to some bankers in California that verified my statement. At least that is their opinion about what is going on out there. I know from the very nature of things that the small merchant or small farmer—lots of farmers in our State want to borrow \$100 or \$200 or \$300, and in making that loan the question of interest is not, by any means, the only charge that could be made against that loan. It takes a great deal of time to wait on that customer. It is not a profitable loan, even if the interest rate is large. If I was in a bank away off somewhere I would not approve of such business because I do not think I could do it safely. If I was in close touch with it and had personal knowledge of that class of customer that I was doing business with, it could be done safely.

Mr. LUCE. That is all.

Mr. FENN. I have only one or two questions to ask. Under your State law, there can be no branch banking—I mean branch banking in Oklahoma?

Mr. SHULL. No, sir.

Mr. FENN. The State law forbids it?

Mr. SHULL. The State law does not forbid it. It is silent on the subject, but the attorney general of our State has ruled that it can not be done.

Mr. FENN. Group banking has started in your State?

Mr. SHULL. Yes, sir; one group of banks.

Mr. FENN. Of course, by group banking, you refer to several banks held by a holding company?

Mr. SHULL. Yes, sir.

Mr. FENN. Do you think there should be a control of that holding company by authority?

Mr. SHULL. Yes, sir; I think so.

Mr. FENN. I think the mention was made here either by Mr. Wingo or by yourself, in regard to foreign corporations coming into a State. Now, we will presume that your holding company for one of your groups in Oklahoma, is chartered in Delaware or in Connecticut or in some State that gives favorable charters for associations of that character.

Mr. SHULL. Yes, sir.

Mr. FENN. How would your State be able to control that Delaware corporation—to use that expression as an illustration—control the operations of this out-of-your-State corporation, which controls, to a large extent, the banking facilities in your State?

Mr. SHULL. I could not answer that. I do not know how they would do it. I said I thought they ought to have some control.

Mr. FENN. If the branch banking association is made up entirely of national banks, that control might be taken by the Government, but it has occurred to me, under this system of group banking, the holding of a chain of banks by an out-of-the-State, ultra-State corporation, the State was losing control of that unit, and that some

system should be devised by which control could be given over the controlling corporation.

Mr. SHULL. I think so, too.

Mr. FENN. What do you think of that?

Mr. SHULL. I think there should be.

Mr. FENN. In regard to direct branch banking, you say—and we have always known it—that interest rates are higher in States like Oklahoma and in some other midwestern States and southwestern States, than it is in other States. How is it in California where branch banking has been developed to the highest degree—I mean the charges to the borrower?

Mr. SHULL. I do not know.

Mr. FENN. I do not know whether Mr. Giannini brought that out the other day or not.

Mr. SHULL. Personally, I do not know.

Mr. FENN. I am curious to know what the rates in California, just west of you—and that is a remote State from the east, as remote as anything can be in the United States to-day—are. I believe the rates in California are not very much higher, if any, with branch banking, than they are here.

Mr. SHULL. I do not know.

Mr. FENN. Do your people look with favor upon the proposition of this group banking in Oklahoma, as far as you are able to ascertain?

Mr. SHULL. They do not.

Mr. FENN. They are fearful that the present banking system would not be able to furnish as good facilities to your people under the group system as under the existing system—is that the idea?

Mr. SHULL. Yes, sir; you will find that the people—and I am not referring to the bankers, but to the people themselves in these agricultural towns—are not in favor of branch banking.

Mr. FENN. I just want to say, in passing, in regard to Mr. Luce's statement about charging for carrying small accounts, I know of a bank—the fourth oldest bank in the United States—where, years ago, the president of an insurance company gave up his presidency of that company to organize a bank, which is now a part of this big bank of which I speak. Three or four banks were consolidated, and that bank this man had organized is one of the units of that consolidated bank. One day one of the tellers said, "We ought to get rid of a lot of these small accounts; some do not carry over \$12," and this very successful insurance president said to his teller, "Don't you let one of them go." He said, "Some day they may be the largest depositors in this bank." That happened; some of them turned out to be the largest depositors in that bank.

Mrs. PRATT. The first question I have is on a subject which was very strongly brought out here both by the Comptroller and by the Governor of the Federal Reserve Board, and that was that the purpose of branch banking was the mobilization of credit in a great many different centers, for the purpose of decentralizing it. Would you be in sympathy with that purpose? Their idea was that that could be done more easily through a branch-banking system.

Mr. SHULL. My idea is that it will not be done through the branch banking system.

Mrs. PRATT. But you think it would be a good thing to bring about?

Mr. SHULL. Yes.

Mrs. PRATT. How would you suggest it could be done without branch banking?

Mr. SHULL. I think it is done with the Federal reserve system, as far as you can do it. I think any country, in the nature of things, will have one financial capital, and I do not think you can eliminate it. I do not know that it is necessary.

Mrs. PRATT. You think the decentralization is done sufficiently through the Federal reserve system as it now stands?

Mr. SHULL. I do.

Mrs. PRATT. Another point that has been brought out is the advantage of the branch banking system as a diversifier of credits. Would you think, in the situation about which you were talking with Mr. Wingo, where the failures were due to loans on cotton crops, that had your banks been members of a branch system they would have had greater diversity of credits and they would not have depended on loans on one type of security? Is it not a fact that if their loans had been diversified, they might have been able to pull through, but, having all of their loans in one type of security, when that was wiped out they had nothing to fall back upon?

Mr. SHULL. I think possibly there would be somewhat more diversification. However, if you will attend a bankers' convention at any point of the country, you will find that diversification is the one thing preached and practiced by the banks to-day.

Mrs. PRATT. You think the small unit bankers could do that?

Mr. SHULL. Yes; they are doing that to-day—diversifying their investments by purchasing bonds to an extent that was unheard of 10 years ago.

Mrs. PRATT. That is a recent development?

Mr. SHULL. Yes; for the country bankers. But you will hardly find a country banker now who has not substantial holdings in securities of various kinds.

Mrs. PRATT. I think that is all.

Mr. STRONG. Without objection, we will take a recess until half past 2.

(Whereupon, at 12.30 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed, Hon. Robert Luce presiding.

Mr. LUCE. The committee will come to order.

Mr. BRAND, I understand you want to ask some questions?

Mr. BRAND. A few questions only.

How long have you been Banking Commissioner of the State of Oklahoma?

Mr. SHULL. About two and a half years; since October, 1927.

Mr. BRAND. Were you connected with a bank at the time you were appointed to that position?

Mr. SHULL. No, sir; not at that time.

Mr. BRAND. I am interested in an independent unit bank, and therefore I was very much interested in your statement and your attitude toward the different systems of banking, branch, chain, and group.

Did I understand you to say that, as an experienced banker, your preferred the unit banking system either to chain banking or branch banking?

Mr. SHULL. Yes, sir, I do.

Mr. BRAND. How much experience have you had in the banking business?

Mr. SHULL. I was in the banking business for about 15 years.

Mr. BRAND. As an active banker?

Mr. SHULL. Yes, sir.

Mr. BRAND. What positions did you hold?

Mr. SHULL. Cashier and president in one, and vice president in another.

Mr. BRAND. And you were actively engaged in banking during those 15 years in the State of Oklahoma?

Mr. SHULL. Yes, sir.

Mr. BRAND. President of one, you say, and vice president of another, and then cashier?

Mr. SHULL. Yes, sir.

Mr. BRAND. During these years that you were engaged in the banking business, were you connected with unit banks exclusively?

Mr. SHULL. Yes, sir. At one time I did have some stock in other banks at close-by points, but not a controlling interest.

Mr. BRAND. What were the figures you gave us this morning, as to the number of failures of banks in Oklahoma, from the beginning of the deflation period in 1920 down to 1929?

Mr. SHULL. There were 174 State banks that failed during that time.

Mr. DUNBAR. What time is that?

Mr. SHULL. From 1920 to 1929.

Mr. BRAND. What character of banks were they? Were they State banks exclusively, or some national banks?

Mr. SHULL. Well, those were the State banks that failed. I think there were only about 53 national banks that failed during that time.

Mr. BRAND. Do you recall how many banks you had in 1920?

Mr. SHULL. Not for sure, but Oklahoma at that time had in the neighborhood of 600 State banks.

Mr. BRAND. Beside the national banks?

Mr. SHULL. Yes, sir.

Mr. BRAND. Do you recall about how many you have now?

Mr. SHULL. They have about 325 State banks now.

Mr. BRAND. And you had 600 State banks in 1920?

Mr. SHULL. Yes.

Mr. BRAND. Do you recall how many national banks you had in 1920?

Mr. SHULL. No, I do not know, but quite a number; more than they have now.

Mr. BRAND. The figures you gave were very significant to me, in regard to the amount each depositor lost in these failed banks. I felt that they had made a very good showing. What per cent was it that you gave us?

Mr. SHULL. There were 5,640 failures which occurred during the 9-year period, and the average deposits were \$234. I am taking the comptroller's figures to arrive as to the number of depositors involved in the failed banks.

Mr. BRAND. What per cent did you say that was?

Mr. SHULL. The recovery in national banks was 80 per cent, just a fraction under that, and I am using that figure all the way through. That made the net average loss \$46.80.

Mr. BRAND. The net loss?

Mr. SHULL. Yes, sir.

Mr. BRAND. To each depositor?

Mr. SHULL. To each depositor—the average loss to each depositor, you understand. Of course, some lost more and some less, but that is the average loss.

Mr. BRAND. You spoke once or twice about the deflation period. I take it, then, that you recognize that the inflation period was succeeded by a deflation period.

Mr. SHULL. It certainly was.

Mr. BRAND. How long did it last in your State?

Mr. SHULL. The deflation period is still there, really. Land values in our State have never anything like recovered to the normal values before the war.

Mr. BRAND. You stated, as I recall, that these failures were largely due to the war period and the deflation period.

Mr. SHULL. Yes, sir.

Mr. BRAND. Which one of these periods caused the greater number of failures of banks?

Mr. SHULL. Well, I would say that both periods were the cause of it. During the period of inflation, the banks were doing business on the basis of values at that time, and then, of course, the period of deflation, which came about, as I remember it, about the middle of 1920, found us with values that were very materially decreased.

Mr. BRAND. I asked that question because we had bank failures in Georgia, but none failed during the inflation period.

Mr. SHULL. They did not fail during the inflation period, but they were laying the foundation for failure during that period.

Mr. BRAND. They were becoming shaky during the period in your State?

Mr. SHULL. They were not exactly shaky during that period, but the loans that they were making during that period were being made on a basis that ultimately did result in the losses.

Mr. BRAND. All of our failures, as I said, occurred during what we call the deflation period, after the war.

Mr. SHULL. Ours did, too.

Mr. BRAND. Did any of the banks with which you were connected fail during that deflation period?

Mr. SHULL. Yes, sir.

Mr. BRAND. I believe you stated your connection was only with State banks.

Mr. SHULL. My official connection now?

Mr. BRAND. No; but at that time; during the 15 years that you were connected with the banking business.

Mr. SHULL. Only about a year was I with a State bank. I was with a national bank at that time.

Mr. BRAND. During that 15 years experience in the banking business, how many of those institutions that you were connected with, if any, became insolvent?

Mr. SHULL. I think they have all since failed. Practically every bank in our county failed, except one.

Mr. BRAND. In the county in which you live, you mean?

Mr. SHULL. Yes, sir.

Mr. BRAND. Do you mean during that period, or since then?

Mr. SHULL. Since the deflation period; 1924, 1925, and 1926.

Mr. BRAND. Including and since the deflation period?

Mr. SHULL. Yes, sir.

Mr. BRAND. How many banks have you in your county?

Mr. SHULL. We have three.

Mr. BRAND. We have a few counties in Georgia where all the banks have failed and where they have no bank now. That is true, I understand, in some sections of Alabama and in some sections of South Carolina.

When a bank fails in your State, Mr. Shull, a State bank, for instance, does the State superintendent of banking take charge of the bank?

Mr. SHULL. Yes, sir; the bank commissioner, under the statute, is made the liquidating agent of the bank.

Mr. BRAND. Just the same as a receiver for national banks?

Mr. SHULL. Yes, sir. Then he appoints some man to act for him in liquidating the bank. We call him a liquidating agent.

Mr. BRAND. Who was the commissioner of banking at the time of the failure of the banks in your county? Who was in office, then?

Mr. SHULL. You understand, I was in the national banking business at that time, but I think a man by the name of Walcott was State commissioner at that time.

Mr. BRAND. Was he a banker?

Mr. SHULL. I do not know anything about him. I do not know enough about him that I would like to answer that.

Mr. BRAND. Have you lived in that county all your life?

Mr. SHULL. Since 1902.

Mr. BRAND. Where were you born?

Mr. SHULL. In Missouri.

Mr. BRAND. I thought you made a good showing this morning in regard to the small amount of losses sustained by the individual depositors.

Mr. SHULL. I just took the figures themselves and analyzed them.

Mr. BRAND. And I am not questioning them, but in our State the losses were much heavier.

What do your agricultural people grow in your county?

Mr. SHULL. Cotton is the principal commodity, and wheat. Part of our State, in the northwestern and western sections, is quite a wheat section.

Mr. BRAND. Did you make loans to farmers on lands?

Mr. SHULL. No. I would not say it was never done. It was done in some instances, but it was not a practice to do it. Most of the land loans you find in failed banks were not originally made as such, but they were taken as additional security on a line that had become enlarged, you know.

Mr. BRAND. If you did not loan on land, then, you would not loan to farmers on crop mortgages as the only security, would you?

Mr. SHULL. We do not have as much share-cropping in our State as they have in your State. We have more of tenant farming. We do loan a good deal of money on tenant-farms and take mortgages on the cattle, horses, or mules to secure the loan, but very seldom would the loan itself be secured just by the crop.

Mr. BRAND. As I understood you to say this morning, the banks that did fail usually were in a better condition at the time they failed than they were prior thereto?

Mr. SHULL. That is right.

Mr. BRAND. I do not exactly understand that.

Mr. SHULL. They had generally improved; in other words, they had been able to collect a lot of paper that looked a few years ago as if it would be a loss, but by keeping the bank open they were able to realize on a good deal of that paper.

Mr. BRAND. Could you not get assistance that would help to put them in a better condition?

Mr. SHULL. They could be in a better condition and still be in a bad condition as a matter of fact.

Mr. BRAND. I will tell you why I asked that. We had in Athens, Ga., my home town, a national bank called the Georgia National Bank. I was a director in it, and we were in a better condition than we had been at any time during the preceding five years, gradually discharging the obligations of the bank to the satisfaction of the Federal reserve bank, to whom we owed a good deal of money, with collateral notes as security. Governor Wellborn, of the Atlanta Federal Reserve Bank, wanted to afford us more assistance and let the bank go on, but some member of the Federal Reserve Board here in Washington would not let him do it—so it was reported to me; I do not know whether that is true or not. But, in any event, the Federal reserve bank refused to loan the Georgia National Bank any more money, when the bank was compelled to close its doors, at which time the bank was in better condition than it had been in five years.

I was wondering if the same situation existed with you at the time your banks failed, and other banks in the same class as yours.

Mr. SHULL. Well, as a matter of fact, the bank I was with failed in 1925.

Mr. BRAND. 1925?

Mr. SHULL. 1925.

Mr. BRAND. That is the same year ours failed.

Mr. SHULL. In our particular bank, the directors just closed up, because of a deal that had been made in taking over another institution.

Mr. BRAND. You were not refused help by the Federal Reserve Bank?

Mr. SHULL. We were refused help, all right; but that was not the only thing that did it.

Mr. BRAND. I think the refusal of the Atlanta Federal Bank to help our bank is the chief reason why the Georgia National failed.

Now, I want to ask you this question: As I understand it, you said that if you established a branch bank in a given community or town where an independent unit bank, was then located, one or the other would have to fail, and it was your judgment, as I understood you to say, that the unit bank would likely go under?

Mr. SHULL. No, you misunderstood me.

Mr. BRAND. Then clarify that.

Mr. SHULL. What I said was this, that we have banks which were chartered, we will say, prior to 1920 which have many losses in them and that are still operating and which, under favorable circumstances, will pull through, but there is not room enough in the towns where some of those banks are located for two unit banks, and I am very much afraid that if we had branch banking there would be a possibility of some larger institution—and you know there is no getting away from the fact that larger institutions do have some power in the way of getting done what they want to get done—putting a branch in that particular town, which would make it a good deal harder for this unit bank to work itself out of its present condition than it would be if it did not have that competition.

Mr. BRAND. And it would be the unit bank that would go down?

Mr. SHULL. Yes, but I am assuming that it is a unit bank that is now in first-class condition. We have some banks yet that are not in 100 per cent perfect condition.

Mr. BRAND. You are opposed, as I understand your statement, to the plan of branch banking as outlined by Mr. Pole, the Comptroller of the Currency?

Mr. SHULL. Yes, sir.

Mr. BRAND. Do you mind briefly giving your reasons for this conviction of yours? I not only want to know on account of being a member of this committee, but I want to also know as a citizen interested in the banking situation in Georgia.

Mr. SHULL. In the first place, I think it is rather unworkable to define and determine what is a trade area. I think you will have to fix the areas in a more or less arbitrary fashion, or do a great deal of overlapping.

In the second place, I do not think there has been the demonstration of any need for branch banking in this country. The unit banks are handling the banking business of this country on a satisfactory basis. We financed the Great War, and we are financing to a very large degree the world itself to-day, and the unit banks are doing it, and the failures which have occurred have been, in a very large percentage, 95 per cent at least, caused by the deflation which followed the war, and branch banking is not going to correct the failures that come from that source.

Mr. BRAND. Are you of the opinion that if these branch banking systems continue to pursue their present policy, and the group banking systems continue their present policy of taking over in one way or another different banks into their respective systems, it will in the end become nationwide and that it will create a monopoly of the capital and credit?

Mr. SHULL. I think it will very largely tend to monopoly. I do not know that it will be an absolute monopoly of it, but it will certainly be in fewer hands than it is to-day.

Mr. BRAND. It will, in your opinion, either create to a certain extent a monopoly of money and credit or tend to do so?

Mr. SHULL. Yes, sir.

Mr. BRAND. That is your firm judgment about it?

Mr. SHULL. Yes, sir.

Mr. BRAND. I believe you are the only witness that has been before our committee who would admit unconditionally that that would be the result; and that is the way I feel about it myself.

What is the average salary you paid for your clerical force in your unit banks?

Mr. SHULL. You mean, among the banks themselves?

Mr. BRAND. Yes, sir; the clerical force in the country unit banks.

Mr. SHULL. Well, of course, they vary in size, but I would say the average salary for a cashier in a bank of \$25,000 capital in our State would be about \$200 a month.

Mr. BRAND. What would be the average salary of the bookkeepers, stenographers, and so forth?

Mr. SHULL. From \$100 to \$150.

Mr. BRAND. You are paying them pretty good salaries for \$25,000 banks.

Mr. SHULL. I do not think that is a very high salary for them.

Mr. BRAND. Are the agricultural classes in your country now prosperous?

Mr. SHULL. No; not very prosperous.

Mr. BRAND. Are they in debt?

Mr. SHULL. Yes, sir.

Mr. BRAND. In what size town in your State, as a rule, is a bank of not over \$25,000 capital located?

Mr. SHULL. The law provides that a town with 6,000 people shall have a bank of \$25,000 capital, as I remember it now.

Mr. BRAND. What rate of interest do you charge your tenant farmers, as you call them, where you lend money to them in order to make crops?

Mr. SHULL. Pretty universally 10 per cent.

Mr. BRAND. What is the legal rate in your State?

Mr. SHULL. Contract rate, 10 per cent. Legal rate, 6 per cent.

Mr. BRAND. As I understand you, you prefer independent unit banking to chain banking, branch banking, and group banking?

Mr. SHULL. Yes, sir.

Mr. BRAND. Mr. Chairman, I do not believe I care to ask any more questions.

Mr. GOODWIN (presiding). Mr. Dunbar is next.

Mr. DUNBAR. Mr. Shull, you said, if I understood you correctly, that if branch banking becomes nation-wide and they operate under national charter, that in time three large banks will control all the branch banks in the United States.

Mr. SHULL. No; I did not make that statement.

Mr. DUNBAR. What statement did you make?

Mr. SHULL. I made the statement that in Canada three large banks control a very large percentage of the business there.

Mr. DUNBAR. Then I understood you to say, after you had made that statement, that three large banks in the United States with many branches would drive the Federal reserve system out of existence.

Mr. SHULL. I did not make that statement exactly as you have it.

Mr. DUNBAR. Please state it as you said it.

Mr. SHULL. I did state that in my opinion, in the course of years, you would have only a few large banking concerns in the United States. Just what number, of course, would be hard to guess, but I say very few, comparatively, and that when you do have just those few banking concerns I was very doubtful if this country would have a Federal reserve system any more than England and Canada and other countries have, which have reached that degree of concentration.

Mr. DUNBAR. That is what impressed me this morning, your statement to that effect. Suppose that our Federal reserve system were forced out of existence by a few large banking institutions that controlled all of our national banks, how would we get our circulating medium?

Mr. SHULL. Well, of course, we had a circulating medium prior to the inauguration of the Federal reserve system.

Mr. DUNBAR. That consisted of national bank and Federal notes only to the extent of \$500,000,000 in circulation, so that it would make our circulating medium possibly only one-third of what it is now.

Has it occurred to the gentlemen what would be the alternative if such a thing occurred? I know that you are opposed to branch banking, but is it one of the evils that you would predict would come about as a result of a nationally authorized branch banking system?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. Have you any idea as to how the circulating medium would then become restored to its necessary amount?

Mr. SHULL. No; I do not feel competent to make suggestions along that line.

Mr. DUNBAR. Yet you do realize it would be necessary to do something?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. Now, when Mr. Strong asked you what the effect in a community was when a bank failed, your reply was that all of the property, all of the money, remained there, and that the effect from a money standpoint did not in any way add to the disaster because of the failure.

Mr. SHULL. No; I did not make it that strong.

Mr. DUNBAR. How strong did you make it?

Mr. SHULL. I said that I did not think that failure would be as disastrous to the community as if that community had a branch bank there that failed.

Mr. DUNBAR. But it would be practically impossible for a branch bank to fail, would it not? Is not that your idea?

Mr. SHULL. No; that was not my idea.

Mr. DUNBAR. What was your idea?

Mr. SHULL. I tried to bring out this idea: We are going to suppose that everyone of the banks there failed, whether unit or branch banks. My idea is that the community situated maybe 200 miles or 500 miles from the parent organization will be hurt worse by the failure of a bank operating under the branch banking system than it would be with the unit bank, because with the unit bank a larger percentage of its loans is loaned locally and that money would still be in the community.

Mr. DUNBAR. I have been led to believe that it is almost impossible for a branch bank to fail.

Mr. SHULL. Well, I do not think that is true, because we had failures in Canada.

Mr. DUNBAR. I mean in the United States.

Mr. SHULL. I think upon investigation that you will probably find that a branch bank failed in California. I would suggest that you investigate that.

Mr. DUNBAR. Was that connected with a parent bank which itself was solvent?

Mr. SHULL. Well, that condition could not exist under branch banking.

Mr. DUNBAR. What condition?

Mr. SHULL. A parent bank would have to fail if any branch of it failed.

Mr. DUNBAR. That is what I thought.

Mr. SHULL. My information is—and I am suggesting this for your investigation, because I may be mistaken—that there was a bank in California that was a branch bank that did fail. I would suggest that you investigate that.

Mr. DUNBAR. I have no doubt that, with a small bank having a small number of branches, such a thing would be possible, but their safety, as I understand it, is based on the fact that they have such an immense amount of capital and surplus that they are able to finance any emergency arising in any of the branch banks under their jurisdiction, and then this morning you added another reason why they might be made secure, which was that when only a few branch banking systems operated our banks in the United States, in event of their failure our Government would have to come to their assistance in order to save chaos.

Mr. SHULL. I think that is the biggest element of safety in branch banking.

Mr. DUNBAR. The prospective help of the Federal Government in the event of a threatened failure?

Mr. SHULL. Yes, sir; I think that is right.

Mr. DUNBAR. Now, a few questions along the line asked you by Judge Brand and Mr. Wingo, respecting the number of failures of banks since 1920. You stated, as I remember it, that of the banks organized in Oklahoma since 1920, but eight of them failed?

Mr. SHULL. I think that is right. It is either five or eight.

Mr. DUNBAR. That is near enough; whereas about 150 failed altogether.

Mr. SHULL. Yes, sir.

Mr. DUNBAR. And Mr. Wingo brought out the point that the failure of these 150 banks was due to obligations that they had assumed during the inflation period, and the deflation period caused them to have to suspend payments.

Mr. SHULL. Yes, sir.

Mr. DUNBAR. And that the banks which had been organized since then had been organized under new fundamental conditions then existing and that they had been able to go along and take care of their customers and operate successfully.

Mr. SHULL. Yes, sir; that is the history of our State.

Mr. DUNBAR. Now, I remember, in corroboration of what Mr. Wingo said this morning, that when I was on the Committee on Banking and Currency some years ago, we had private, confidential information that in one of our prosperous Western States—of course, I will not name it—if all the banks there had to liquidate in two years' time, 95 per cent of them would not succeed in doing so.

That is in accord with your theory that the banks that have been failing since have been among that 95 per cent and that it was the

actual result of the inflation before 1920, and that that could not be used as an argument against the continuance of unit banking?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. So, your judgment is that if these unit banks were going into business now and were not overburdened, as they would not be, with past obligations, there is no reason why they should not prosper and succeed—is that your idea?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. And that a unit bank would be better able to serve the public than a branch bank?

Mr. SHULL. Yes, sir.

I think one other point is worthy of consideration. I understand that in the State of Iowa which is probably the most typical agricultural State in the Union, more banks failed with a capital stock of over \$50,000 than under \$50,000. In other words, more large banks failed in that State than small banks.

Mr. DUNBAR. Now, your contention is, as I understand it, that branch banking will not stop the failures of smaller banks in these various communities?

Mr. SHULL. I think they certainly will not.

Mr. DUNBAR. On the other hand, you think that branch banking would have a tendency to hasten the failure of these small banks, because of the competition?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. How much interest do you pay on deposits?

Mr. SHULL. Four per cent is the present rate.

Mr. DUNBAR. How much do you lend your money for?

Mr. SHULL. It is from 6 to 10 per cent.

Mr. DUNBAR. The 10 per cent loans being the risky loans, if I understood you correctly?

Mr. SHULL. There is more risk involved in them.

Mr. DUNBAR. How do banks in some communities pay 4 per cent interest on savings and lend that out at 6 per cent?

Mr. SHULL. That occurs in the larger banking points. A small bank with a small volume of business could not loan out money at 6 per cent and at the same time pay 4 per cent on deposits.

Mr. DUNBAR. You brought out this morning a thought on a subject that I spoke to you previously about, and that is that if we were to have Federally authorized branch banks, they would drive out the Federal reserve system, and, if they drove out the Federal reserve system, there would have to be some solution of the problem arising in connection with our currency. You are firmly of the conviction that unit banks organized now and properly managed can be a success in the communities in which they exist, are you?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. What size community would you think would be the smallest in which that situation could come about?

Mr. SHULL. We have some banks that are as good banks as we have in the State in very small communities, of 300 or 400 population, and some of the safest banks and the best earning banks that we have are in those small communities.

Mr. DUNBAR. And they draw their business for miles around?

Mr. SHULL. Yes, sir.

Mr. DUNBAR. Have you much branch banking in Oklahoma?

Mr. SHULL. We have none.

Mr. DUNBAR. The law of your State does not permit it?

Mr. SHULL. No; the attorney general has ruled that it does not, but the statute is silent on that question.

Mr. DUNBAR. That is all.

Mr. GOODWIN. If branch banking becomes legalized on a nation-wide basis, or within certain defined trade areas, what effect would the branch banks have upon the independent unit banks that are now existing?

In other words, do you believe that an independent bank and a branch belonging to a large system can exist side by side, or must one inevitably go under?

Mr. SHULL. Well, I am looking up the histories of the countries that have had branch banking for quite a while, and the result in those countries is that there is just one system of banking now, branch banking.

In California there are some good unit banks in operation to-day that are competing successfully with branch banks.

Mr. GOODWIN. But the branch banking system in California has been of comparatively short duration?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. This group has been increasing tremendously within the last few years?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. Well, I want to get your own opinion as to whether an independent unit bank can exist for any length of time with the increased competition that a branch bank would give to the unit bank?

Mr. SHULL. I did not catch the question.

Mr. GOODWIN. What I am anxious to know is if, in your opinion, an independent unit bank—even a strong one—can exist against the competition of a strong branch bank with a vigorous management and powerful influence that it carries with it?

Mr. SHULL. Well, there might be exceptions in the cases where they could, but I would say generally they could not.

Mr. GOODWIN. We have been told in this committee repeatedly that there is nothing quite so fluid as money; that wherever there is a demand for money, money will be available. Do you have any apprehension that if there is established legally a branch banking system, nation-wide, or within a trade area, there will be any restriction of credit in different localities?

Mr. Shull. I think there will be. You will have to interpret what that demand is. There would not be a restriction of credit even in any section of the United States, to certain classes of enterprises, but there would be to others. I think unquestionably these large banks would not make loans to the small farmer and certain classes of people—small merchants—because they would simply prefer a larger line of business and a large line of business which they could take a little more time and get more information about.

Mr. GOODWIN. In other words, the little fellow who may want to borrow a small amount for the development of his business would not have the same opportunity to obtain credit from a large branch banking system that he would from an independent unit bank where he

was known by the officers of the bank and trusted and relied upon for his integrity?

Mr. SHULL. I do not think so.

Mr. GOODWIN. Have you given any thought to the taxation of branches of a branch bank in the different communities where branches would be located?

Mr. SHULL. Well, I do not know whether there would be any way to correct it or not. Under the present law of taxation all the taxes would be paid where the charter was taken out by the parent bank. There might be a way to get around that, but I do not know what it is. That would have to be changed to provide to smaller communities where the branches are the benefit of that taxation.

Mr. GOODWIN. On the basis of money used by that particular bank in the community?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. In your State, Mr. Shull, where have the bank failures been most pronounced—in the agricultural sections or industrial sections or in the oil fields?

Mr. SHULL. Of course, the entire State of Oklahoma is more or less an agricultural State, even in the oil districts. The number of failures in our States have been pretty well distributed. The southeastern section of the State, which is strictly the cotton section, had their failures first. The northeastern section, which is the oil section, is getting their failures now. However, there was more financial strength in that section and they have been able to carry on longer, but in the last year and a half the most failures have been there.

Mr. GOODWIN. As I understood you, you charged the deflation that followed the war as being the cause of many of these failures?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. Do you have in mind anything in reference to the War Finance Corporation activities and the policy it pursued in calling loans it had made to banks to carry agriculture?

Mr. SHULL. Yes, sir.

Mr. GOODWIN. What do you think of that policy they pursued at that time? Was it either necessary or justified?

Mr. SHULL. I had wondered what the losses were to the Government under that policy. Of course I had no way of finding out.

Mr. GOODWIN. I understand the Government lost nothing, but had a substantial profit.

Mr. SHULL. They may have; I do not know.

Mr. GOODWIN. But losses were sustained by agriculture, mostly, I understand?

Mr. SHULL. I know some good that was done by that system.

Mr. GOODWIN. If that money had been made available continuing for some length of time, so as to permit the farmers to recover entirely, in your opinion, would many of these bank failures have followed or would many of them have been saved?

Mr. SHULL. Those failures might have been lessened somewhat. However, in speaking of bank failures, the men in a supervisory capacity like to speak of frozen loans. As a matter of fact, most of those loans were just losses. We just had losses that happened, and the bank failure in a community itself is not the bad thing. These losses that they had that caused that bank failure are the things that hurt so much. It is the losses.

Mr. GOODWIN. Those are all the questions I have to ask. Is there any other member of the committee who wishes to ask Mr. Shull any further questions?

Mr. WINGO. I think I will take the liberty of thanking Mr. Shull on behalf of the committee for coming here. I understand, Mr. Shull you are one of the outstanding banking commissioners in the country and we appreciate very much your coming here and giving us your views.

Mr. GOODWIN. The committee thanks you very much.

(Whereupon, at 3.25 o'clock, p. m., the committee adjourned to meet at 10.30 o'clock, Wednesday, May 14, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 14, 1930

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

The committee met in the committee room, Capitol, at 10.45 o'clock a. m., Hon. Robert Luce presiding.

Mr. LUCE. The committee will come to order. Mr. Reichert, will you please give your name, address, and official position to the reporter.

STATEMENT OF RUDOLPH E. REICHERT, COMMISSIONER OF BANKING, STATE OF MICHIGAN, LANSING, MICH.

Mr. REICHERT. My name is R. E. Reichert, State banking commissioner of Michigan, Lansing, Mich.

Mr. LUCE. Mr. Reichert, you understand we are here to learn what we can about branch, chain, and group banking. We shall be glad to have you tell us what you know about it and what you think about it.

Mr. REICHERT. Would you like to have me make a statement?

Mr. LUCE. If you will, please.

Mr. REICHERT. Mr. Chairman and members of the Banking and Currency Committee of the House of Representatives, I greatly appreciate the courtesy of being invited to appear before your committee and take part in this very interesting discussion, which is of such vital importance to the banking world. You are seeking a solution of a very perplexing problem, and both the bankers and the public should appreciate the time and labor that you are giving in your efforts toward finding its solution. I shall be very happy if I can assist you and possibly contribute something to your study of this question as a result of my observations and experiences in connection with the duties as commissioner of banking for Michigan. I must of necessity confine my statements principally to the operations of banks in Michigan.

A report from the Comptroller of the Currency, advising your committee that under the present State and national banking systems there have been 5,641 bank suspensions in the last nine years should, of course, call for an investigation and study of our present systems. It should, however, be definitely kept in mind that the comptroller referred to suspensions when giving these statistics and not failures.

I have read all the testimony available to me, and with particular interest that of the Comptroller of the Currency and the governor of the Federal Reserve Board. I shall endeavor to make my statement

as brief as possible, and in it will attempt to anticipate as many of the questions as I think you might ask, judging from your previous hearings. I shall also refrain in the main from using statistics that have already been furnished to you, except in so far as they pertain to my own State.

Michigan has had three banking laws during its existence. In 1837 the first act was passed. The banks chartered under this act immediately went into land speculations and the issuing of what was known as wildcat currency. It was the dismal failure of these corporate banks that brought about private banking, and with the exception of those corporate banks which went into liquidation, they were succeeded by private institutions. Private banks still exist in Michigan.

In 1857 the second act was passed and was amended in 1871. This did not prove successful and wildcat banking continued, and along with it bank failures. This condition brought about a demand for a complete revision of our banking laws, placing definite powers in the commissioner of banking, including discretionary power for the granting of charters. It is the latter provision, so wisely administered by previous commissioners, that has contributed more to the success of our banking system than any one other thing. In 1887 the present act was passed, and in 1889 the department of banking was organized. This act was recodified in 1929 by the department with the assistance of a committee from the Michigan Bankers Association, and this act was passed by the legislature in that year.

In our State at the present time there are 581 State banks, 8 industrial banks, 23 trust companies operating under State law. These institutions have total deposits of \$1,419,488,000. The number of national banks operating in the State is 130, and their deposits are \$536,147,000. According to the latest statistics available to me, the average ratio of banks to population in the United States is one bank to every 4,554 people. Michigan has one bank to 5,371 of population. In some States this runs as high as one bank to 1,150 of population. The principal difficulties have arisen in States where the ratio of banks to population is high.

As far as the operation of our banks under our act since 1889 is concerned, we do not feel that we have had an unusual number of bank failures. Since 1889 we have actually had 24 chartered State bank failures. The amount of money involved in these receiverships amounted to \$13,141,355.24. The amount that has been paid to creditors up to date is \$5,110,505.81. We have at present four active receiverships, the amount involved in these being \$1,187,815.34. For the last nine years, which is the time covered by the comptroller's report, we have had six chartered State bank failures. The amount involved in these six banks is \$2,964,702.45. Four of these are still active receiverships. Up to date there has been returned to creditors \$703,853.53. This covers the period of the last nine years. Comparing this amount with the total assets of our chartered State banks and trust companies on March 27, 1930, which amounted to \$1,780,698,856.96, you will find that the losses to creditors approximate \$6,000,000 in these banks for a period of over 40 years, and after the present receiverships are closed, a loss of approximately

\$1,500,000 to \$1,700,000 in the receiverships for the last nine years; this in banks with assets aggregating \$1,780,698,856.96. The percentage of loss on this basis would be approximately one-tenth of 1 per cent.

The question which naturally comes to your minds after comparing this statement with that made by the comptroller, reporting 66 banks suspensions in Michigan for the last nine years, is concerning the nature of the other 60 suspensions. As previously stated, six banks of the 66 were State banks that are now or have been in receivership. One of these is listed twice in his report because it suspended business in 1924, was reopened, and finally closed in 1925. Four were State banks that were temporarily closed and reopened after reorganization took place under a new management. Three were State banks that were closed while sales were being effected with other institutions so that in these instances the deposit liability was cared for. Two were national banks, and the balance of 50 in number were private banks which now must, under act 284, P. A. 1925, go into liquidation or organize under the State or national banking law should the individual or partners die. Under this act, private banks can no longer be established, nor can the private banks in existence at the present time be sold. In the last three years we have taken over 11 private banks. During this period, 33 banks have given up their charters by virtue of consolidations. In some instances these latter banks did not have sufficient earning power.

The matter of earnings is one item in the reports which we watch very closely. We consider earning power one of the most important factors in a bank. In order to have earning power, the bank must have a clientele and management. The best managed bank in the world without customers can not be successful. In connection with the subject of earnings, I might state that we have prepared with the cooperation of the Federal Reserve Bank of Chicago, a chart showing the distribution of gross earnings of Michigan banks according to their relative sizes.

I have those charts with me and if you should like to see them, I shall be glad to present them to you. They are charts that the examiners use to fit the banks into the group to which they belong, using these charts to acquaint the board of directors with the average experience of institutions of like size.

Mr. HOOPER. Did you intend to place one of them in the record? Mr. REICHERT. If you so desire; yes. I though possibly you might have had those charts furnished you by the Federal reserve bank.

Mr. HOOPER. Do you not think it is proper to have those charts inserted in the record at this place?

Mr. LUCE. Yes. It is not a diagram chart, is it?

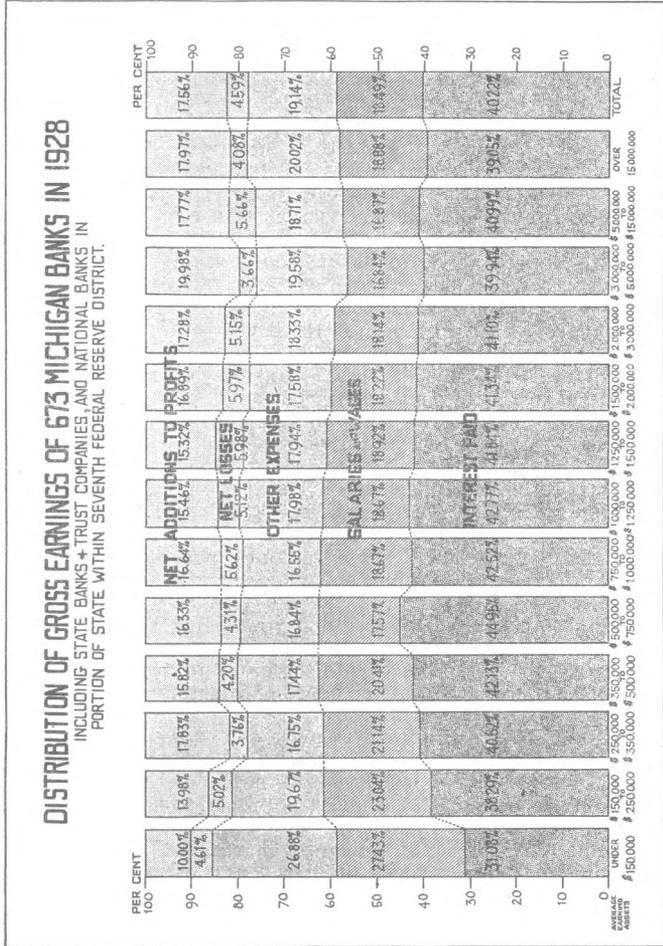
Mr. HOOPER. We might look at them first, before inserting them.

Mr. LUCE. I do not feel that I want to take the responsibility of inserting this type of chart into the printed record.

Mr. HOOPER. Perhaps it would be better for us to examine the charts first.

Mr. LUCE. However, after consultation with the clerk, I find that the chart can be inserted.

(The charts referred to are reproduced on following pages.)



	Number of banks	Interest and discount received by gross loans and investments	All other earnings received by gross loans and investments	Total gross earnings received by gross loans and investments	Total expenses divided by gross loans and investments	Interest on deposits received by gross loans and investments	Interests and discounts borrowed divided by gross loans and investments	Salaries and wages paid by gross loans and investments	Taxes paid by gross loans and investments	All other expenses paid by gross loans and investments	Net earnings received by gross loans and investments	Net losses received by gross loans and investments	Net addition to reserves divided by gross loans and investments
		Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Under \$150,000.....	47	7.72	0.56	8.28	7.07	2.57	0.16	2.27	0.45	1.78	1.21	0.38	0.83
\$150,000 to \$250,000.....	84	7.46	.36	7.82	6.34	2.69	.08	1.80	.30	1.24	1.49	.39	1.09
\$250,000 to \$350,000.....	64	7.59	.44	8.03	6.09	3.08	.45	1.63	.29	1.00	1.66	.29	1.37
\$350,000 to \$500,000.....	99	6.89	.27	7.16	5.55	3.14	.06	1.47	.33	.92	1.44	.30	1.14
\$500,000 to \$750,000.....	99	6.73	.27	7.00	5.55	3.14	.06	1.29	.31	.83	1.44	.30	1.14
\$750,000 to \$1,000,000.....	76	6.56	.36	6.92	5.38	2.82	.08	1.20	.34	.89	1.41	.35	1.06
\$1,000,000 to \$1,250,000.....	45	6.50	.36	6.86	5.45	2.93	.08	1.24	.34	.89	1.40	.39	1.00
\$1,250,000 to \$1,500,000.....	25	6.24	.31	6.55	5.15	2.73	.06	1.24	.35	.82	1.55	.41	1.15
\$1,500,000 to \$2,000,000.....	30	6.57	.42	6.99	5.24	2.81	.11	1.24	.37	.83	1.61	.45	1.16
\$2,000,000 to \$3,000,000.....	32	6.11	.58	6.69	5.27	2.74	.16	1.22	.34	.89	1.57	.24	1.33
\$3,000,000 to \$5,000,000.....	22	6.11	.71	6.82	5.01	2.64	.06	1.16	.34	.89	1.57	.24	1.33
\$5,000,000 to \$15,000,000.....	30	5.83	.71	6.54	5.01	2.64	.06	1.16	.34	.89	1.57	.24	1.33
Over \$15,000,000.....	19	5.37	.52	5.89	4.59	2.24	.30	1.11	.41	.77	1.30	.24	1.06
Total.....	673	5.78	.51	6.29	4.90	2.49	.17	1.16	.39	.81	1.39	.29	1.11

* Data computed on national bank figures only, as State bank report of earnings and dividends does not segregate the item from interest paid on deposits.

	Gross loans and investments divided by invested capital	Net addition to profits divided by invested capital	Salaries and wages divided by total gross earnings	Interest on deposits divided by total gross earnings	Total expenses divided by total gross earnings	Net losses divided by earnings	Net addition to profits divided by total gross earnings	Dividends divided by earnings	Interest on deposits divided by gross deposits	Time deposits divided by gross deposits	Invested capital divided by gross deposits	Net earnings divided by invested capital
	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>	<i>Per cent</i>
Under \$150,000.....	458.64	3.55	27.43	31.01	85.39	4.61	10.00	7.59	2.52	54.14	22.87	0.18
\$150,000 to \$250,000.....	602.90	6.59	29.04	38.27	81.01	5.02	13.98	6.53	2.88	58.24	15.98	8.96
\$250,000 to \$350,000.....	824.65	11.31	21.14	40.05	78.41	3.76	17.83	9.91	2.86	63.82	11.28	13.69
\$350,000 to \$500,000.....	798.34	9.08	20.41	42.06	79.98	4.20	15.82	11.59	2.86	65.84	11.85	11.49
\$500,000 to \$750,000.....	810.74	8.49	18.67	43.20	79.24	4.20	16.43	10.77	2.78	66.11	11.63	11.85
\$750,000 to \$1,000,000.....	867.74	9.92	18.67	43.20	79.24	5.62	16.64	11.77	2.78	66.50	11.63	13.27
\$1,000,000 to \$1,250,000.....	882.79	9.36	18.67	43.20	79.42	5.12	15.46	10.79	2.81	65.69	10.87	12.46
\$1,250,000 to \$1,500,000.....	838.41	8.41	18.92	41.62	78.70	5.08	15.32	11.45	2.59	60.67	11.34	11.70
\$1,500,000 to \$2,000,000.....	894.33	10.26	18.22	41.33	77.15	5.97	16.89	9.39	2.69	60.22	10.52	13.89
\$2,000,000 to \$3,000,000.....	896.39	10.42	18.14	40.79	77.56	5.15	17.28	9.97	2.59	62.76	10.70	13.89
\$3,000,000 to \$4,000,000.....	686.96	9.11	16.34	40.43	76.99	3.68	17.28	11.26	2.69	57.79	12.30	12.18
\$4,000,000 to \$5,000,000.....	758.40	8.35	18.88	37.97	77.95	4.08	17.97	10.94	2.69	52.91	12.69	12.18
Over \$15,000,000.....	758.40	8.03	18.88	37.97	77.95	4.08	17.97	10.94	2.15	52.91	12.69	9.83
Total.....	779.36	8.62	18.49	36.50	77.85	4.50	17.56	10.90	2.40	57.18	12.37	10.87

Mr. REICHERT. In this manner we felt that we could assist our banks in determining whether or not they conformed with the average in their group. There are many things which enhance or impair earning power. The forcing of the discontinuation of exchange charges by banks and the resultant free use of checks has contributed quite largely to the expense of handling commercial business. Banks are making analyses of costs covering these floats which are very enlightening, and as a result are installing systems to take care of these costs. These systems, however, are quite complicated and would not only be costly but difficult to operate in country banks. There is some argument for the old system of exchange charges and passing it back to the customer. As I go on in my work, I find that these old bankers have thought of a lot of things that we apparently again have to learn from experience.

Whenever some one had authority to restrict the organization of banks to cases of necessity and had the courage to carry it out, the result has not been so unsatisfactory. There is, of course, one factor of which we must not be unmindful, and that is that we have come through an economic readjustment after the World War, which has, of course, along with everything else, upset our financial system. During the war we played an important part in world banking, and we did become the principal producer of food. We virtually had the whole world for our customer. Following the cessation of hostilities, foreign countries again looked to their former sources of supply, which, of course, greatly interfered with our production program; and in view of this it is not at all surprising that we have had some very definite disturbances in attempting to readjust our selves to existing conditions.

On January 21, 1927, at the time of my appointment, there were 581 State banks. Eleven charters have been issued to acquire private banks, and 30 consolidations have been effected. On March 27, 1930, we had 581 State banks, so it must be quite evident to you that we have not been very liberal in the granting of charters. We have insisted that no charter be granted in a community unless a bank is absolutely necessary. I have thought that it was better to err upon the side of conservatism, feeling that there would be less harm in not having a bank in a certain community if it was not apparent that sufficient business was available to make it a success, than in granting a charter.

Since January 21, 1927, a period of a little over three years, we have had one State bank failure. The total amount involved in this bank was \$723,097.76. This failure occurred in May, 1929. We have already paid a dividend of \$146,309.60, and permission has just been granted to pay another dividend of 10 per cent. This failure was caused by forgeries, both in notes and mortgages on the part of a father and son who were president and cashier respectively.

The question naturally arises in your minds just where the private bank suspensions which were included in the comptroller's report should be charged. Certainly they can not be included with chartered state banks or national banks, and a claim made that because of the failure of these private banks, these systems are inoperative. As stated before, it was not until 1925 that the act prohibiting the establishment of private banks was enacted in this State. Private

banks are neither under the supervision of the banking department nor under any other department.

Our State allows branch banking in municipalities. This has worked out very satisfactorily. The bank can absorb the expense of the operation of these branches until they begin to pay. These branches, as operated by our banks, are purely a convenience to their customers. The bank is limited in the extension of branches to an investment of 50 per cent of its capital and surplus in banking house.

In 1929, our act was amended to give banks the right to establish industrial loan departments for the purpose of taking care of the small borrower. Our law also provides for the segregation of savings assets to cover savings deposits, and designates the class of securities that these deposits must be invested in. Our statute also provides for trust powers to be given banks when they have the combined capital required for a trust company and a bank in a given locality. Trust companies may also have banking powers under certain circumstances.

During the past year, group banking came into prominence in this State. Upon the affiliation of the first State bank with one of these groups, an opinion from the attorney general was asked for. He was asked to rule upon the following questions:

(1) Is there any difference between the purchase or ownership of one share of stock and the purchase or ownership of two-thirds or all of the stock of a bank or trust company by a holding company?

(2) Do these holding companies, by the ownership of two-thirds or all of the stock, by the absolute power vested under our statute to such owner, constitute operation of such institution?

(3) Banks and trust companies receive their charters from the State to have offices in a city or village for the purpose of doing a banking or trust business. Such corporations can not be organized under the general corporation statute. Does the organization of a holding company, organized under the general corporation statute, owning two-thirds or all of the stock of such corporation, do by indirection that which can not be done under either statute?

There are other points at issue such as the voting of stock, the stockholders' liability in each of the institutions so owned by the holding company, directors' qualifying shares, machinery to be set up to collect assessments should one be necessary. In fact, the whole question involved seems to be, Can all the statutory provisions pertaining to the organization and operation of banks and trust companies as set forth by the legislature in these two statutes, be complied with by this method of organizing holding companies to own and control banks and trust companies?

To the above he replied that all the provisions of our statute could be complied with by the organization of a corporation under one statute and owning all the stock but directors' qualifying shares of a corporation organized under another statute, provided the holding company did not attempt to operate under the statute governing the corporation whose stock it holds. I can furnish you with a copy of his opinion if you so desire.

Mr. SEIBERLING. That is an opinion from your attorney general?

Mr. REICHERT. Yes.

Mr. LUCE. Is it long?

Mr. REICHERT. Seventeen typewritten pages.

Mr. LUCE. Do you desire it put into the record?

Mr. SEIBERLING. I do not know that I want it to go into the record, but I should like to see it. Have you printed copies of the opinion?

Mr. REICHERT. No, sir; only the one copy.

Mr. LUCE. I think this had better be inserted in the record at this point.

(The opinion of the attorney general is printed in full, as follows:)

OCTOBER 9, 1929.

Hon. R. E. REICHERT,

State Commissioner of Banking, Lansing, Mich.

DEAR SIR: You have asked the following questions with reference to the purchase of stock in State banks;

"(1) Is there any difference between the purchase or ownership of one share of stock and the purchase or ownership of two-thirds or all of the stock of a bank or trust company by a holding company?"

"(2) Do these holding companies, by the ownership of two-thirds or all of the stock, by the absolute power vested under our statute to such owner, constitute operation of such institution?"

"(3) Banks and trust companies receive their charters from the state to have offices in a city or village for the purpose of doing a banking or trust business. Such corporations can not be organized under the general corporation statute. Does the organization of a holding company, organized under the general corporation statute, owning two-thirds or all of the stock of such corporation, do by indirection that which can not be done under either statute?"

"There are other points at issue such as the voting of stock, the stockholders' liability in each of the institutions so owned by the holding company, directors' qualifying shares, machinery to be set up to collect assessments should one be necessary. In fact, the whole question involved seems to be, Can all the statutory provisions pertaining to the organization and operation of banks and trust companies, as set forth by the legislature in these two statutes, be complied with by this method of organizing holding companies to own and control banks and trust companies?"

A discussion of the issues involved depends upon the structure as well as the relation of the holding company and the individual banks. It must be remembered at the outset that State banks can be organized and chartered only under the banking act of Michigan. The holding company has been organized under the general corporation law of the State and is, of course, not chartered for banking purposes. The plan, is, however, to exchange shares of bank stock for shares of stock in the holding company so that the shareholders of holding company stock may indulge in what is termed "group banking."

The holding company's chartered purpose is stated to be as follows:

"To acquire, own, hold, dispose of and deal in stocks, bonds and other evidences of indebtedness and securities including those issued by any corporation, domestic or foreign, and to possess and exercise in respect thereto all the rights, powers, and privileges of individual owners thereof including the right to vote the same and to execute proxies therefor."

The first consideration therefore is whether the holding company may legally carry out these purposes with reference particularly to the ownership of bank stock in banks located in the several cities of the State.

Section 1, part 1, chapter 1 of Act 84 (Pub. acts of 1921), provides:

"Any number of persons * * * may incorporate for the purpose of carrying on any lawful business for pecuniary gain."

The general corporation law of Michigan previous to the amendment of 1929 was in part as follows (sec. 8, pt. 1, ch. 3):

"Subject to the limitations of the laws of this State and the United States with respect to monopolies and illegal restraints of trade, any corporation organized for pecuniary profit shall have power, in furtherance of the objects of its existence, to purchase and hold shares of stock of other corporations organized under the laws of this or any other State for purposes similar to those of such corporation."

Under this previous act the purchase and holding of corporate shares by a corporation was strictly limited to the purchase, etc., of those shares of another corporation organized for similar purposes. (See opinions Attorney General

Kuhn, 1911, p. 332; Attorney General Fellows, 1916, p. 277; Attorney General Wiley, 1921-22, p. 239.)

However, the 1929 legislature, recognizing the trend of modern economic change, has seen fit to change the corporation act in this respect (Act 267, Public Acts 1929) by eliminating the limitation upon the right of a corporation to purchase the shares of other corporations, and to give unlimited authority to incorporate for the purpose of purchasing and owning stock in other corporations. Section 8, pt. 1, ch. 3, Act 84 (Public Acts 1921), as amended by Act 267 (Public Acts 1929), reads as follows:

"Subject to the limitations of the laws of this State and of the United States with respect to monopolies and illegal restraints of trade, any corporation organized for pecuniary profit, or organized on a stock share of nonstock basis not for pecuniary profit, shall have power in furtherance of the objects of its existence, to purchase and hold shares of stock or memberships of its own or other corporations organized under the laws of this or any other State (jurisdiction or sovereignty).

Since the legislature has seen fit to give this broad power, the following language is significant:

"A corporation therefore may take and own stock in another corporation whenever it is expressly authorized to do so." (2 Fletcher on Corporations, 2075.)

I am therefore of the opinion that a corporation, organized under the general corporation laws of the State, may legally buy and own shares of stock in State banks if the scope of its charter is broad enough to include these purposes.

Granting then the right to purchase and own stock in banks by a holding company, the second consideration is whether this power conflicts with the banking law by permitting a corporation organized under the general corporation laws of the State, and not under the banking laws, to do a banking business.

The banking laws (Act 66, Public Acts of 1929) clearly contemplate the localizing of the business of banking in Michigan by the conducting of such business within the city or village where such bank is located, thus negating branch banking outside the municipality of a chartered situs. (See secs. 1 and 70, Act 66, Public Acts 1929, Op. Atty. Gen. Dougherty, 1925-26, p. 90.)

But, is the owning, holding, and voting of stock by a holding company the conducting of a banking business in law? I think not. There is a distinct legal difference in the corporate entities of the bank and the holding company. There is also a legal difference between the ownership of the shares of a bank and the management of the bank itself. The shares of stock do not legally constitute the bank itself, nor the conducting of the business of the bank while the corporate entity is maintained. The chartered powers of the holding company are limited solely to the ownership of shares and the privileges incident thereto. This is the entire scope of the holding company's business under its charter. If it transcends this power, it acts *ultra vires*, and if it remains within this power and the bank's corporate entity is maintained, there can be no legal objection.

This question has been foreclosed it seems to me, by decisions of our courts that the ownership of stock in a holding company with its attendant incidents, does not in and of itself imply that the holding company is carrying on the business of the company whose stock it may own. In the case of *Peterson v. Chicago, Rock Island & Pacific Ry.* (205 U. S. 364) at page 391, Mr. Justice Day said:

"It is true that the Pacific Co. practically owns the controlling stock in the Gulf Co., and that both companies constitute elements of the Rock Island system. But the holding of the majority interest in the stock does not mean the control of the active officers and agents of the local company doing business in Texas. That fact gave the Pacific Co. the power to control the road by the election of the directors of the Gulf Co., who could in turn elect officers or remove them from the places already held; but this power does not make it the company transacting the local business.

"This record discloses that the officers and agents of the Gulf Co. control its management. The fact that the Pacific Co. owns the controlling amounts of the stock of the Gulf Co. and has thus the power to change the management does not give it present control of the corporate property and business. *Pullman Palace Car Co. v. Missouri Pacific Co.* (115 U. S. 587, 597)."

In *Cannon Manufacturing Co. v. Cudahy Packing Co.* (267 U. S. 333; 69 Law Ed. 634), Mr. Justice Brandeis said:

"The main question for decision is whether, at the time of the service of process, defendant was doing business within the State in such a manner and to such an extent as to warrant the inference that it was present here. * * *

"Through ownership of the entire capital stock and otherwise, the defendant dominates the Alabama corporation, immediately and completely; and exerts

its control both commercially and financially in substantially the same way, and mainly through the same individuals, as it does over those selling branches or departments of its business not separately incorporated which are established to market the Cudahy products in other States. The existence of the Alabama company as a distinct corporate entity is, however, in all respects, observed. Its books are kept separate. All transactions between the two corporations are represented by appropriate entries in their respective books in the same way as if the two were wholly independent corporations. This corporate separation from the general Cudahy business was doubtless adopted solely to secure to the defendant some advantage under the local laws."

The court then held that the holding company was not in anywise transacting the business of the subsidiary in the State of Alabama.

In *Monongahela Co. v. Pittsburgh & Birmingham Traction Co.* (196 Pa. St. 25), the court said:

"It does not follow, however, that the city is the owner of the property of the company because it purchased its stock. We have been referred to no authority, and we know of none, that asserts the doctrine that the purchaser of all the shares of the capital stock of a corporation thereby becomes the owner of its property. On the contrary, the principle is well established that the shares of the capital stock of a corporation are essentially distinct and different from the corporate property, and that the owner of all the stock of a corporation does not own the corporate property or become entitled to manage or control it."

As long as each company maintains its full, separate corporate identity, and the individual bank is managed and operated in fact by its own respective officers and board of directors, and the conducting of the business of such bank is real and not a sham, then, in my opinion, the holding company would not, although owning all except the qualifying shares, be conducting a banking business in a legal sense. It is only when the practices or activities becomes such that the local banking power, control, and management are usurped by the holding company, and abdicated by the local bank that the holding company may be said to be conducting a banking business under the guise of operating as a holding company.

It is only in such a case that the State would be justified in exercising its right to file an action in quo warranto against either the bank, the holding company, or both. The mere domination of the bank by the holding company having a controlling interest in its stock is not a wrong, nor does it affect the legal existence of the bank, nor the relationship of these two companies. But what the company and the bank do might affect this relationship. It is the practice or activity that governs. In short, it is only when a holding company, organized under the general corporation laws, attempts to do by indirection the business of banking, which it can not do by direction, that the practice might be said to become unlawful and subject to restraint.

"Where a corporation is so organized and controlled and its affairs so conducted as to make it a mere instrumentality or agent or adjunct of another corporation, its separate existence as a distinct corporate entity will be ignored and the two corporations will be regarded in legal contemplation as one unit. In *re Muncie Pulp Co.* (139 Fed. 546); *Interstate Telegraph Co. v. B. & O. Telegraph Co.* (51 Fed. 49); *Wormser on Disregard of the Corporation Fiction*, 54. When a corporation exists as a device to evade legal obligations, the courts, without regard to actual fraud, will disregard the entity theory. *Higgins v. Cal.* (Pet. & Asp. Co., 147 Cal. 363; 81 Pac. 1070); *Brundred v. Rice* (49 Ohio St. 640; 32 N. E. 169, 34 Am. St. Rep. 589); *Donovan v. Purtell* (216 Ill. 629; 75 N. E. 334; 1 L. R. A. (N. S.) 176)." (*Peoples v. Mich. Bell Tel. Co.*, 246 Mich. 198, at p. 204.)

As banking commissioner, it would be your duty to continue to deal directly with the individual banks, to conduct examinations and exact compliance just as though no change had occurred in the ownership of the shares of stock in any bank, but it would also be your duty to scrutinize the practices of each local bank concerned from time to time, to determine whether in fact its business continues to be done by such bank as a local unit just as the law contemplates.

The next consideration would perhaps be the matter of stockholders' liability. Assuming that the holding company owns all of the stock of the bank, the question then arises, how can the statutory liability be enforced? This liability is found in section 48, Act 66, Public Acts 1929, as follows:

"The stockholders of every bank shall be individually liable, equally and ratably, and not one for another, to satisfy the obligation of said bank to the amount of their stock at the par value thereof, in addition to the said stock; * * * Such liability may be enforced in a suit at law or in equity by any such bank in

process of liquidation, or by any receiver, or other officer succeeding to the legal rights of said bank."

In addition to this section 44, act 66, Public Acts of 1929, provides for the making of an assessment upon shares of stock to repair deficiencies and other remedies against the stock.

The charter of the holding company, I am informed, contains the following clause in this regard:

"The holders of the stock of this corporation shall be individually and severally liable (in proportion to the number of shares of its stock held by them respectively) for any statutory liability imposed upon this corporation by reason of its ownership of shares of the capital stock of any bank or trust company."

With this express provision in the charter, the question narrows itself to whether the stockholders liability, if expressed in the charter (which is declaratory of the statute) can be enforced against the stockholders of the holding company.

Fletcher on Corporations (vol. 1, p. 1077), after discussing the effect of such a provision in by-laws, says:

"Thus, in the absence of a charter or valid statutory provision therefor or an express agreement, a by-law can not render a dissenting member or stockholder liable to assessment by the corporation beyond the amount which he is required to pay by his contract of membership."

This would, therefore, imply that if the provision was found in the charter, the same would be enforceable.

Fletcher on Corporations (vol. 6, p. 7148), says:

"It is not within the power of a corporation, unless it is authorized by the charter or by some other statute, to bind the stockholders to personal liability for its debts, without their consent, by agreement with its creditors, by resolution or otherwise. A bank, for example, can not make its stockholders liable on its notes or bills by printing thereon a notice that they are so liable; and, in the absence of charter or statutory authority therefor, a corporation can not make a valid by-law imposing upon stockholders personal liability for its debts, unless they consent."

At page 7149 it is said:

"Stockholders, of course, may render themselves personally liable for debts of the corporation by express agreement or consent, provided their promise has a consideration to support it, and is in writing, when this is necessary under the statute of frauds, but their liability in such case is not as stockholders, but as individuals."

The general rule will be found in 3 R. C. L., page 410, where it is said:

"Though the liability is imposed by statute it is regarded as contractual in its nature, rather than penal. The undertaking is as if one subscribing for stock expressly agreed to take and hold it under a previously prepared contract in writing that all who should become holders of the stock should pay the amount of their subscriptions to the corporation when needed, and should pay the additional sum to create a fund for creditors if the corporation should become insolvent, * * *."

In *Duncan v. Freeman* (110 S. E. (Ga.) p. 5), the court says:

"The liability of the stockholder of a national bank, though statutory, rests at last on the stockholder's subscription or on his receipt and acceptance of his stock."

A general discussion of the question will be found in *Western National Bank v. Lawrence* (117 Mich. 669), wherein the bank brought an action in assumption against defendant Lawrence to enforce his individual liability as a stockholder in a Kansas corporation. The court, at page 672, said:

"While the liability is statutory, it is one which arises on the contract of subscription to the capital stock, * * *."

"If the company's charter provides that the shareholders shall be subject to a special individual liability to creditors, persons becoming shareholders agree to become liable, both in a corporate capacity and individually, to all persons who shall give credit to the corporation."

In this case, the defendant was a stockholder in an ordinary corporation, not a banking corporation, and while such liability was sanctioned by the constitution of Kansas, the domicile of the corporation, the court held that the liability is one of contract.

It is, therefore, my opinion that shareholders may be bound to an added liability when the same is properly expressed in the charter of the company, and this liability may be enforced as provided by law.

Under section 44, the sale of stock provides a definite means of collection if the stock has any value, but in case of insolvency such remedy is inadequate, because the stock is without value.

The question arises as to how this liability can be enforced when the stock is owned by a holding company. If the stock has sufficient value so that its sale will produce enough to satisfy the assessment, it makes no difference whether the stock is owned by an individual or a holding company. If the stock has no value (as in the case of insolvency) recourse must be had to the personal assets of the individual, or in case of holding company ownership, to the assets of that company.

If the company is uncollectible, the court would probably look through the company to its stockholders and enforce the liability against them. Particularly would this be true where the stockholders assumed liability as here expressed in the charters of the holding company.

In 3 R. C. L., 400, it is said:

"In some instances the courts have gone beyond the registered stockholders. This is upon the principle that the parties who by reason of being the actual owners of the stock are entitled to the profits and benefits of the business carried on by the bank, must respond to the burdens and debts up to the statutory limit. In the enforcement of this liability against stockholders it is well established that the actual owners of the stock can not shield themselves against such liability by putting the title of the stock in the name of some irresponsible third party. Creditors have the right to call upon the actual stockholders for contribution; and this right can not be defeated by a merely colorable transfer of the legal title to some third party, who in fact holds the same for the benefit of the real owner of the stock. * * * The object of the statute is not to be defeated by the mere forms of transactions between shareholders and their creditors. * * *"

In *Chicago, Milwaukee & St. Paul Railway Co. v. Minneapolis Association* (247 U. S. 490), the court said:

"In such a case the courts will not permit themselves to be blinded or deceived by mere forms of law, but regardless of fictions, will deal with the substance of the transaction involved as if the corporate agency did not exist and as the justice of the case may require."

I therefore answer your first three questions in the negative and your last question in the affirmative and reach the following conclusions:

First. A holding company may organize under the general corporation laws of Michigan and may, if its charter is broad enough, purchase, own, and hold shares of stock in State banks.

Second. The ownership and exercise of incidents of ownership of stock in a holding company owning all but qualifying shares in several banks is not legally doing a banking business in the State, in violation of law.

Third. It is only when the practices of a holding company become such as to usurp the functions of the bank in fact and in reality, so that a banking business is being done by the holding company, that intervention can be sustained.

Fourth. A holding company can, by expression in its charter, meet the double indemnity of statutory liability under the banking act.

Fifth. It is the banking department's duty to continue to treat individual banks concerned in stock purchased by a holding company in all respects as individual units for examination and all other purposes; and also to scrutinize the operation of such banks in their factual relationship with the holding company.

Very respectfully yours,

WILBER M. BRUCKER, *Attorney General.*

Mr. REICHERT. The proposition which we felt confronted us from a supervisory standpoint was that we could see in this program the combination of investment companies, trust companies, joint-stock land banks, national banks, and State banks all under one head and virtually the same directorate, but under different supervisory authorities. In other words we felt that by the organization of these groups under present law, it would be possible to defeat the principal restrictive provisions in banking and trust laws, both National and State, should these holding companies be organized by individuals who were not sufficiently conservative. In Michigan we have been

very fortunate that the two groups which have organized holding companies have voluntarily thrown around their organizations, through their by-laws and articles of association, all possible protective provisions that have been suggested by the comptroller's office or our office, and have provided further that these provisions are subject to change only with the consent of the supervising authorities. They have also made available to our examiners the records of all of their affiliated corporations. If group banking could be confined to groups such as these, no anxiety should be felt either by the public or the supervising authorities.

One of these groups has confined itself in its ownership of bank stock to banks in the metropolitan area where its main office is located. The other, in addition to that, has gone out into the industrial centers of the State. From the standpoint of our securities commission, we have now made a ruling that no more stock of holding companies will be approved for sale in Michigan, or for exchange for Michigan bank or trust company stocks, unless it has similar provisions as are incorporated in the articles of association and by-laws of these corporations.

Whatever argument may be advanced against our unit banking system, one thing must be admitted—that it has developed our progressive United States. Through it, initiative has been permitted to develop local communities in which the banker and other individuals had a community interest. I doubt whether this could have been accomplished under any other system. Whether we now have arrived at a time when this system should be abandoned due to bank failures in certain sections, and some other system adopted—be it group or branch banking—is a question for careful consideration. There is also some force to the argument that banking units must be established to be able to take care of credit requirements of large business units.

Difficulties will be experienced in enacting laws to provide for protective and restrictive provisions governing groups, the units of which are operated under National and State laws with different supervisory authorities. This difficulty would not arise in a branch banking system.

When considering the high mortality of banks which has principally occurred in territories where the issuing of charters was very freely done, you should not lose sight of the fact that there is some argument for the soundness and serviceability of a system that has had but one bank failure during the last 3 years and six during the last 15 years, which is the record of our State for State-chartered banks. The record for national-chartered banks in this State is equally satisfactory. If, however, it is determined to establish a branch banking system, due consideration should be given to the unit banks already in existence in the establishment of branches. Any changes should have as their prime consideration the safety of the depositor. Provision must be made to avoid ruinous competition with existing unit banks, as such a procedure tends to impair the position of the depositor.

If State lines are disregarded as suggested in the comptroller's plan of establishing branch banking for trade areas, I would feel that the matter of taxation as it pertains to the States would be quite a problem. If branch banking is to be extended, limited to States, or established trade areas, the question of capital structure should have

your consideration. As branches are extended, capital should be increased, otherwise you would be liable to approach mutual banking rather than banking supported by stock capitalization. I am sure that these matters have all had your consideration.

The Federal reserve system should also be given consideration because I feel that the enactment of that law was the greatest piece of progressive financial legislation that Congress has ever passed. In this connection I would, however, like to make one observation, and that is that with changes that have taken place in financing, less and less paper becomes eligible for borrowing and rediscount, and in order this system to be of real service to banks, changes should be made looking toward the liberalization of loaning restrictions. Especially is this true as it pertains to State member banks.

Governor Young, in his testimony, referred to the earnings of the Federal reserve banks. In this testimony he pointed out that \$147,109,573 had been paid over to the Government in franchise taxes by these institutions, and \$276,934,000 had been added to surplus, and that their capital at the present time is \$170,975,500. These earnings have accrued largely as a result of the free balances of the member banks, and I am entirely in accord with his plan for the distribution of a portion of these earnings based upon deposits, but there should be no definite rate set up in the form of interest on deposits. In other words, I think there should be a distribution of earnings at the end of the period to member banks either on capital or deposits, but preferably on deposits, in lieu of interest.

There are other phases of this subject that I feel have been adequately covered by previous testimony, and in order to save time, I will refrain from making any further statements other than to say that we in our State are watching with interest the developments in this exhaustive study that your committee is making of this subject. Your recommendations to Congress will be given consideration by every legislature which will convene next year, because your recommendations will be based upon a more thorough study than individual States could make and upon information which would not be available to them except through your committee. On this information and your recommendations the various supervising authorities will largely base their recommendations to the legislative bodies in their States. I want to assure you of our interest in the work that your committee is doing and offer you the facilities of our office, if we can be of service to you.

Mr. LUCE. Mr. Reichert, in giving the number of your State banks and the number of national banks, you do not go to the point of telling us what the tendency is in this particular. It would appear that your national-bank deposits are a little more than one-third of those companies operating under your State law. Is the tendency, in your State, for capital to turn to the State form of organization rather than the national form?

Mr. REICHERT. I do not think that is the case to an unusual degree. In Detroit we have had some consolidations where State banks have been taken over by national banks and then again some national banks which have been taken over by State banks, and that is true throughout the State. I would not say that the increase in assets in the two systems have been showing any tendency particularly one way or the other. I should say that the ratio of assets in the two systems have been going along as they have been for some time.

Mr. HOOPER. It seems that the locality governs considerably; for instance, in the locality in which I live, there were 3 national banks and 1 State bank and they have become 3 national banks. On the other hand, in other communities, the tendency seems to be the other way, so it about strikes a balance.

Mr. REICHERT. Yes, sir; there are some cities where there are only State banks and others where there are only national banks represented.

Mr. LUCE. We are watching these two systems competing with each other and interested in knowing which system is forging ahead and which is dropping behind, if that thing is happening.

Mr. REICHERT. As far as our State is concerned there has been no competition with the comptroller's office in the granting of charters. Wherever a group in a city has applied for a State charter, we have only granted it where the situation seemed to warrant it, and in case of national charters, the comptroller's office seems to have reciprocated in that respect very well.

Mr. LUCE. How many national banks are there in Detroit?

Mr. REICHERT. Two national banks.

Mr. LUCE. Two national banks in Detroit out of how many banks?

Mr. REICHERT. There are eight State banks and two national banks in Detroit. I should like to check that figure a little later, but I am sure that is correct.

Mr. LUCE. You pointed out that the comptroller, in his figures, had referred to suspensions and not failures. I have not caught that distinction and have been accustomed to speak of these totals as failures. You referred, later on, to suspensions but did not bring out, with definiteness, what you had in mind in drawing the line between suspensions and failures.

Mr. REICHERT. In his statement he refers to suspensions and that includes banks that were temporarily closed and then reopened and also banks sold to other institutions and their deposit liabilities cared for, and one bank is in his figures twice. What actually happened, as far as State banks' charters are concerned, we have had six failures and there are 50 private banks that have either gone into voluntary liquidation or are actually in receivership for the 9-year period.

Mr. LUCE. Have you any idea that should modify his statement as to the 5,641 bank suspensions in the last nine years in the country; would the point that you bring out make any serious difference in the alarming feature of the situation?

Mr. REICHERT. I think it possibly would, because I presume that the experience in other States has been similar to ours; that is, in many cases, banks have suspended and they have reopened either by sale to other institutions or have opened up under new management. I do not know how far-reaching it would be, but I know it makes a very definite difference so far as Michigan is concerned.

Mr. LUCE. In these cases that you referred to, of reorganization, and so forth, has there been material loss, nevertheless, to depositors?

Mr. REICHERT. Not to depositors, in any instance. There was no loss to depositors in those reorganizations or where they were taken over by another bank.

Mr. LUCE. You referred to your act of 1925, preventing the organization of further private banks. Does that extend to prohibiting individuals from engaging in the banking business?

Mr. REICHERT. Unless they have a State or national charter; yes.

Mr. LUCE. Do you know of other States that have adopted that type of law?

Mr. REICHERT. I do not. The act was passed to prevent the continuation of private banking and also to provide for orderly liquidation. We have a number of private banks, however, that still exist in the State.

Mr. LUCE. The matter has become of considerable interest to the committee in its efforts to straighten out the tangle of taxation produced by private and other banks and incorporated banks. Is it your judgment that that law has been a useful one?

Mr. REICHERT. Yes; I think it has been. It has prevented anyone else going into the private banking business and has had a tendency toward the elimination of private banks.

Mr. LUCE. Does it go to the extent of preventing the individual from loaning money while engaged in business as a broker?

Mr. REICHERT. Oh, no; not as a broker. Would you like to have me read the act? It is very short.

Mr. LUCE. I think it is well worth while to have it in the record.

Mr. REICHERT (reading):

The people of Michigan enact:

SECTION 1. *Private banks—when unlawful to organize.*—On and after the effective date of this act, it shall be unlawful for any individual, person, or unincorporated association of individual persons, to engage in the business of banking as defined in Act No. 205 of the Public Acts of 1887 as amended and other laws of this State relating to banks and banking: *Provided*, That this act shall not apply to any individual person or unincorporated association of individual persons engaged in the business of banking at the time of the passage of this act.

Then there is the penalty for the violation.

Mr. LUCE. Would that prevent partnerships similar to Morgan & Co., Kuhn, Loeb & Co., and other big banking houses of New York City from engaging in business in your State?

Mr. REICHERT. I should think so, if they took deposits or engaged in the banking business such as is provided under the general banking law of the State of Michigan. They can only engage in the banking business under that law or the national act in the State at the present time.

Mr. LUCE. You have told us of provisions for the segregation of savings assets to cover savings deposits. That is, of course, not the case with national banks?

Mr. REICHERT. No.

Mr. LUCE. Does any uneasiness result from the fact that your State banks are compelled to give protection to savings deposits while the national banks are not?

Mr. REICHERT. That would be rather difficult for me to answer. I have never heard the subject brought up, however.

May I go back to your former question in reference to Kuhn, Loeb & Co. and Morgan & Co.?

Mr. LUCE. Yes.

Mr. REICHERT. If they took deposits, I think it would prevent them from doing business in Michigan. It would not prevent their engaging in the sale of securities. Was that the point you wanted to bring out?

Mr. LUCE. Yes. This matter of savings deposits interests me particularly, because in my own State of Massachusetts, we have the same requirements in the matter of trust companies and we find our national banks, within a few rods of a trust company, enabled to mix all their money at the close of the day, without any particular protection to the savings deposits.

In your national bank failures in Michigan, have depositors suffered notably by the failure of segregation?

Mr. REICHERT. I would not be qualified to answer that because I do not know what the outcome of national bank failures has been. There have been two over the period of nine years, that the comptroller speaks of. I think that probably one reason that State banks have had large deposits, especially savings deposits, than national banks is because they have had branches in the municipalities and the national banks did not have them. Consequently, State banks have more savings deposits in proportion to national banks.

Mr. LUCE. What is the customary rate of interest now being paid on savings deposits by your State banks?

Mr. REICHERT. Three and 4 per cent—3 in the larger centers, and in some sections they are paying 4 per cent.

Mr. HOOPER. In my neighborhood they pay 4 per cent—largely in the south central portion.

Mr. LUCE. You tell us there are two groups that have organized holding companies in your State?

Mr. REICHERT. Yes, sir.

Mr. LUCE. Has that been done recently?

Mr. REICHERT. I would say that has been done within the last ten months.

Mr. LUCE. Are they apparently at work to add to their groups?

Mr. REICHERT. No; I do not think so. I think they have purchased all the banks that they desired and I do not know of their engaging or negotiating for any banks at the present time.

Mr. LUCE. Do you know of any other movement on foot to create other groups?

Mr. REICHERT. Not at the present time.

Mr. LUCE. You have told us of a ruling that you will approve no more stock issued by holding companies for exchange of Michigan bank or trust company stocks, unless there are provisions incorporated in the articles of incorporation or the by-laws of these associations similar to those you apply to your State banks. It is not clear to me whether that results in what I might call a quadruple liability. Tell us about that.

Mr. REICHERT. In the organization of these holding companies, after the Attorney General's ruling, the holding companies agreed—they possibly agreed to this prior to the ruling—agreed to incorporate the provisions that were in the banking law, and carry that on the certificate of stock in the holding company, which carried the liability through to the holder of a certificate. They also provided for various other requirements that are in the statute. Those were Michigan corporations. When foreign corporations came in to ask for their stock to be approved, as holding companies, we felt that it would be unfair to hold our Michigan corporations to certain regulations and conditions, and approve the stock of a foreign corporation without the same provisions, so that after this opinion of the Attorney General,

we passed a ruling of the securities commission that we would not approve any more stock of foreign holding companies unless they had similar provisions as the holding companies organized in Michigan.

Mr. LUCE. What I am driving at is to find whether the mathematical result is that in the case of, say, the Farmers Trust Co., the stockholders of the Farmers Trust Co., have, in addition to the double liability, further accompanied by a double liability on the part of the stockholders in the holding company, making twice the score—the mathematics of it are all I am after.

Mr. REICHERT. The holding company owns the stock of the bank—all except the qualifying shares.

Mr. LUCE. Yes.

Mr. REICHERT. The individual owns the stock of the holding company and, in accepting that certificate of the holding company, he assumes the stock liability that the holding company has in these respective banks—his proportionate share of the stock liability. That is according to the certificate.

Mr. LUCE. And there is no increase in his security?

Mr. REICHERT. No.

Mr. LUCE. You referred to the matter of taxation as perhaps presenting difficulties. Would there be any difference in that matter from the situation brought about by foreign corporations doing business in your State, as well as in other States, where the taxation is measured by the amount of capital employed in the State?

Mr. REICHERT. Well, you have got to consider the deposit liability and its ratio to capital. It could possibly be worked out, but I think there would be more of a difficulty in working it out as a banking matter than it would be in other corporations.

Mr. LUCE. It is only the taxation feature as to which I inquire.

Mr. REICHERT. Yes. The question of taxation of bank stocks is up before the special committee of our State at the present time—the special committee on all taxation.

Mr. LUCE. You point out the fact that less and less paper is becoming eligible for borrowing and rediscounting and think that changes should be made looking toward the liberalization of the loaning restrictions. Will you specify just what you have in mind in that regard?

Mr. REICHERT. The changes in refinancing of corporations which are going into financing themselves through stock issues. There is less and less paper now coming into the banks from that source, but banks have a large number of municipal bonds. Not having this rediscountable paper, they might have several million dollars of municipals and, being a member of the Federal Reserve System, they could not go to the Federal Reserve and borrow on that, but would have to go to their other correspondents for that service, in case of definite withdrawals.

Mr. SEIBERLING. You think that the law should be amended so as to permit them to borrow on municipal bonds?

Mr. REICHERT. Municipal bonds of a certain type, based on population of communities and ratio of indebtedness to assessment.

Mr. SEIBERLING. And the total value of the tax duplicate?

Mr. REICHERT. I do not know what you mean.

Mr. SEIBERLING. The total value of the taxable property in the district?

Mr. REICHERT. Yes, sir. I would not want to advocate that all municipal bonds should become eligible as collateral.

Mr. HOOPER. I should like to ask one or two questions of Mr. Reichert. In Michigan, Mr. Reichert, the limit of branch banking to State banks is the boundary of the municipality, is it not?

Mr. REICHERT. Yes.

Mr. HOOPER. And how is that working out around through the State outside of the large cities? Is branch banking being used in the small towns and cities, say, of 25,000 to 100,000, considerably?

Mr. REICHERT. Possibly these tables [exhibiting] will give you the best idea.

Mr. SEIBERLING. Have you placed the totals in the record?

Mr. REICHERT. No; I did not know whether you would call for them. There are 52 State banks having a total of 354 branch banks. Eight banks in Detroit have 259 of these branches. Two banks in Grand Rapids have 27 of these branches, and that leaves a total of 68 branches for the balance of the State.

Mr. HOOPER. Has there been any consideration given in Michigan to the extension of branch banking beyond the limits of the municipality at all?

Mr. REICHERT. No.

Mr. HOOPER. Then branch banking, as it exists in our State, corresponds, in a general way, with national branch banking as defined by the McFadden bill?

Mr. REICHERT. Yes, sir.

Mr. HOOPER. Now, Mr. Reichert, we have been hearing here some men from all over the United States on this question, including the Comptroller of the Currency and some very distinguished men. Many of them at least attributed the decline of the banking business in small towns throughout the country, for instance, to the lack of diversification of business in the small country towns. What has been your observation about that in Michigan among the small banks? Has that played much part in the banking business there? Has it tended to injure the banking business of the small towns?

Mr. REICHERT. The banks in the small towns are not increasing their deposits. I think that is generally conceded, that the automobile, of course, has made some difference in regard to where a man can do his banking conveniently.

We still have a great many banks in small towns that are being operated at a profit and are soundly operated. The difficulty, of course, in operating a bank in a small town is to secure management at the price that you can afford to pay.

Mr. HOOPER. And then retain them after you secure them?

Mr. REICHERT. Yes; retain them after you secure them.

Mr. HOOPER. I suppose the same situation prevails in Michigan as in other States—that there is a lure from the big city banks for the small bank man?

Mr. REICHERT. Yes, sir.

Mr. HOOPER. Generally the small bank in Michigan, in the small villages throughout the State, has the same sort of competition as it would have in Georgia or Iowa or other states?

Mr. REICHERT. I would say so.

Mr. HOOPER. But you have shown us to-day that the small bank in Michigan has been a fairly successful bank and there have been

very few failures; that while similar conditions have prevailed there, it has not militated against the small bank in Michigan. That is what you have been showing?

Mr. REICHERT. Yes, sir. This chart [exhibiting] will answer your question as quickly as anything. It will show the net profits in banks under \$150,000 or from \$150,000 to \$250,000.

Mr. HOOPER. I think that is all.

Mr. SEIBERLING. You referred, awhile ago, to the Comptroller of the Currency confusing the terms "failures" and "suspensions."

I notice on page 12 of volume 1, part 1 of the hearings, the comptroller states he is using the term "failure" as synonymous with the term "suspension," although these two terms are not always so used. He further states, "The statistics of the Federal Reserve Board for bank failures are based upon suspensions," but that the comptroller has not counted such a bank as a failure that suspends and reopens and continues to do business. I wanted to clear that up.

Mr. REICHERT. Yes, sir. The reason I mentioned this is also to clear it up because I found in later testimony that you were referring to that being the number of bank failures in Michigan, especially in the testimony that Mr. Lord gave here.

Mr. SEIBERLING. When you incorporate or permit a chain banking company, incorporated in another State, to do business in your State, how does it qualify?

Mr. REICHERT. It has to qualify before the securities commission which only pertains to the sale of stock.

Mr. SEIBERLING. What does it state its business is when it qualifies?

Mr. REICHERT. I would think that would probably depend upon the individual application. I have no recollection of any specific application, but I would think that their application would be a request to sell stock in Michigan, collaterally supported by bank stocks as assets in our State or other States.

Mr. SEIBERLING. You do compel these chain companies to qualify in order to do business?

Mr. REICHERT. All stock in Michigan must be qualified before the securities commission, with the exception of bank stock chartered under Michigan law or the national bank act.

Mr. SEIBERLING. The company has to qualify too?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. When one of these foreign companies qualifies to do business, they must state that they are going to acquire bank stocks; they can not state they are going into the banking business?

Mr. REICHERT. No, sir.

Mr. SEIBERLING. Do you think there is any difference between a chain company owning the capital stock of a great many banks and managing them and a company doing a banking business?

Mr. REICHERT. That was the purpose of my inquiry of the Attorney General and he said under our law it was possible for them to own as long as they did not operate.

Mr. SEIBERLING. I am asking you what you think about it.

Mr. REICHERT. Of course I concur with our Attorney General.

Mr. SEIBERLING. As a matter of law that might be true under your statutes, but do you not think——

Mr. REICHERT. I think, as an economic matter——

Mr. SEIBERLING. They are in the banking business, are they not?

Mr. REICHERT. I would not want to accuse them of it, but—

Mr. SEIBERLING. Now, you have six State banks, I believe, in Detroit and two national banks.

Mr. REICHERT. No; we have eight State banks.

Mr. SEIBERLING. And two national banks?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. You have other large banks in Michigan—Flint, Grand Rapids, and I guess over where you live, possibly. If we had a law permitting branch banking in trade areas and these banks found it convenient to take advantage of the law, you can not see any reason why your entire State should not be furnished with banking facilities and why it would not be of great assistance to your cities to have a concentration of credit and capital in your large cities, instead of having that concentration going somewhere else through chain or group banks?

Mr. REICHERT. Do you refer now to the benefit to the small community?

Mr. SEIBERLING. To your whole trade area, the small and large community as well?

Mr. REICHERT. I would think there would be a tendency, of course, under a branch banking system, to concentrate capital in the locality where the main office is located. That would be quite natural.

Mr. SEIBERLING. That would be in Grand Rapids or Flint or Detroit and you would still have plenty of competition and if your industries wanted to finance themselves they could be financed in the State of Michigan, could they not?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. Do you not think it would be a great advantage to the country to have trade areas of that kind where people could finance close at home where they knew the people and there was a personal interest in the community rather than go to the large metropolitan center far away?

Mr. REICHERT. I think that would be preferable, and I think if you are going to establish branch banking, it would be preferable to establish it on State lines.

Mr. SEIBERLING. Branch banking would be more economical?

Mr. REICHERT. I will grant you that.

Mr. SEIBERLING. And even under your group system, you would have to have some plan of branch banking because, as a number of bankers have stated here, group or chain banking can not take care of these small centers that need banking facilities.

Mr. REICHERT. I do not think that groups would be interested in the small centers.

Mr. SEIBERLING. Or chain banks either?

Mr. REICHERT. No, sir.

Mr. SEIBERLING. Under those two systems, you do not take care of the small communities with those facilities, do you?

Mr. REICHERT. No.

Mr. SEIBERLING. Of course these eight State banks that you have in Detroit have branches all over the city of Detroit?

Mr. REICHERT. Yes, sir; all over the city of Detroit.

Mr. SEIBERLING. But they do not extend outside of the county?

Mr. REICHERT. Not outside of the city—outside of the municipality.

Mr. SEIBERLING. Do you not think it would be of great advantage if a general banking law could be passed by Congress which would permit more banks to come into the national banking system under the branch-bank plan?

Mr. REICHERT. As I read the law, there is very little difference between our State law and your national law at the present time, and to take care of most communities I think, as the law is now, you can do it as well under one system as under the other. Of course, if you are going to disregard State lines in the matter of branch banking then it would necessarily have to come through a national banking system.

Mr. SEIBERLING. Do you not feel it is unfortunate to have a Government such as ours lose its national banks and get entirely out of contact with the banking business of the country?

Mr. REICHERT. Yes; that would be true. I do not feel that that is happening in our State, however.

Mr. SEIBERLING. You have only two national banks in Detroit.

Mr. REICHERT. Well, of course, one of those came out of a consolidation of two national banks.

Mr. SEIBERLING. You have large cities in Michigan where you have no national banks, have you not?

Mr. REICHERT. Large cities?

Mr. SEIBERLING. Yes.

Mr. REICHERT. No; I do not think we would class those as large cities that have no national banks. I would think that the largest city that I recall now that has no national bank is Owosso.

Mr. HOOPER. That has no more than 20,000 population.

Mr. REICHERT. Probably not more than ten or twelve thousand.

Mr. HOOPER. Twelve thousand, perhaps?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. What percentage of your failures has been due to mismanagement? Have you any idea?

Mr. REICHERT. The only receivership that we have had that has been due to mismanagement has been due to forgery.

Mr. SEIBERLING. And you have had no difficulties in Michigan in the depreciation of lands which were security for loans with failures following, due to that?

Mr. REICHERT. We have had some depreciation, but not failures. We have had depreciation of the lands, but not failures of banks.

Mr. SEIBERLING. The depreciation has not been so rapid the banks could not protect themselves?

Mr. REICHERT. No, sir.

Mr. SEIBERLING. That has not been true in the agricultural districts of the Middle West and Northwest?

Mr. REICHERT. I could not say as to that, but I understand that your testimony here bears that out.

Mr. WINGO. Mr. Reichert you come to us with the reputation of being one of the most capable State bank commissioners we have. For that reason you were selected as one of three to come down here. I should like to get your judgment on some things. You say you favor branch banking?

Mr. REICHERT. I should like to keep an open mind on that until you have concluded your study, because I know I will be called upon

to make recommendations to the State legislature, no doubt, and should I change my mind between now and then, due to your investigation, I would not like to be definitely committed to one program or the other. I think there is some argument for and against branch banking. So far as our State is concerned, the same necessity at present does not exist as in some other States you refer to.

Our unit banking system has served our communities well. It has been free from failures; that is, I am speaking of the corporate banks, both national and State, and with few exceptions, the banks have had an earning power sufficient to take care of losses and wherever they have had them we have advocated consolidations or reorganizations, and we do not feel that banking institutions in Michigan have any unusual problem at this time.

Mr. WINGO. You feel, then, that your present unit banking system has proved successful, but naturally you are open to such convictions as may come to you from the further study that you think the present investigations will afford?

Mr. REICHERT. Correct.

Mr. WINGO. I suspect that you are not alone in the view that you are willing to consider whatever may develop in the way of changed conditions, and you naturally do not want, as a public official, to be embarrassed by some statement that may be predicated upon your past conclusions. In other words, after taking into consideration some changes that might be brought to your attention, you might feel that you wanted to reform your judgment?

Mr. REICHERT. That is correct.

Mr. WINGO. I have no desire to embarrass you. I appreciate that that is a very proper position for a public official who is to be called on for recommendations to take.

Suppose that it should be decided to amend the national bank act so as to permit a greater extension of branch banking privileges for national banks. Based on your experience and on your observation, would you advise that that extension be limited either to State lines or to trade areas, or nation-wide? What is your judgment on that or have you matured your judgment?

Mr. REICHERT. I have not matured my judgment on that. I would, however, feel that to confine it to State lines would be much easier to operate from a legislative standpoint when you come in competition with the State banks. Of course I appreciate that business does not recognize State lines.

Mr. WINGO. Of course, if you are thinking about it from the standpoint of your State banks, it would be easier, possibly, from a regulatory standpoint to confine the branches of a State bank to your State lines, but possibly you have overlooked the fact that you could still thoroughly inspect any branch bank that your State bank might establish, say in one of your adjoining States or anywhere else; you could still have supervisory control over the parent corporation, could you not?

Mr. REICHERT. Over the parent corporation?

Mr. WINGO. Yes.

Mr. REICHERT. I would not be qualified to pass upon the point whether we could go into another State and examine a branch there.

Mr. WINGO. You are not a lawyer?

Mr. REICHERT. No, I am not.

Mr. WINGO. Then I will avoid some of those questions that might be purely legal.

But we will take the trade and economic situation. There are other illustrations that can be used, but I will use one that is in my district. Texarkana, Ark., is in my district. Texarkana, Tex., and Texarkana, Ark., are in reality but one city, the dividing line being nothing but an imaginary line between the two States running down the center of one street. Banks on both sides of the line have business connections. For illustration, some gentlemen may live on the Texas side, may be officers in a Texas bank, and yet have business on the Arkansas side, or just the opposite. So that in a case of that kind there would be a practical necessity, assuming now that branch banking is right and that it is wise and good for the public, that would somewhat handicap providing for any geographical limitation or branches, would there not?

Do you see what I have in mind?

Mr. REICHERT. I see what you have in mind.

Mr. WINGO. But that is a matter, I presume, that you think you had better leave to the lawyers when they come to figuring on the legal requirements and the legal right of a State bank commissioner to go outside of his jurisdiction?

Mr. REICHERT. I think so.

Mr. WINGO. I will suggest that you had better go into that study, and I suspect you will find that, as a matter of fact, there would be no legal difficulties in having branches beyond State boundaries. The question of permission of foreign corporations to do business in Michigan is one that your law would control, but the real law is a line of decisions that the Federal courts have built up passing upon the State laws that undertake to restrict and govern that.

I was interested in one suggestion that you made—and I believe it was an answer to a question by Mr. Seiberling—that you did not think that a group or chain bank would be interested in banks in small centers. I believe you used the term “small centers,” and you said that they would not be interested in them.

Will you explain to the committee what you mean by that—why you think they would not be interested?

Mr. REICHERT. Did I answer that they would not be? Possibly, I might qualify that in our State they do not seem interested, and I would question whether they would be interested in small centers.

Mr. WINGO. That is your experience in Michigan, is it? That is the reason I was interested. I happen to know that there are groups or chains that are made up entirely of banks in small towns. Those are chain banks, and, I believe, group banks.

Mr. REICHERT. What I tried to convey to you is that this activity in our State has been confined to large institutions in industrial centers.

Mr. WINGO. Your State has reached that point where I suspect it classes itself and is as a matter of fact an industrial State?

Mr. REICHERT. Yes.

Mr. WINGO. That is its major business?

Mr. REICHERT. That is its major business.

Mr. WINGO. And the major bulk of your capital is invested in industrial enterprises?

Mr. REICHERT. I would say so.

Mr. WINGO. Your State has been fortunate in its business activities in the last 10 years, and you have not been troubled so much with bank difficulties, have you?

Mr. REICHERT. No.

Mr. WINGO. I believe you said that you have only had one receivership of a State bank, and that that was caused by forgeries and misconduct, and not by any economic condition or any bad judgment in making loans and things of that kind, but purely misconduct upon the part of the managing officers?

Mr. REICHERT. Yes. That is over a period of three years.

Mr. WINGO. How many State banks did you say you have in the State, approximately?

Mr. REICHERT. Five hundred and eighty-one.

Mr. WINGO. How many of those are in your larger cities? If you do not have it definitely, just approximate it. What proportion of them is in the larger cities? You have 8 or 10 cities there that might be called industrial cities, have you not?

Mr. REICHERT. Yes; there would be a small proportion in number, but a large proportion in assets.

Mr. WINGO. The great bulk of your banking capital—and I am talking now about capital invested in State banks in the State of Michigan—is in the cities of your State, is it?

Mr. REICHERT. Yes.

Mr. WINGO. The bulk of it would be limited, I suspect, to possibly five cities?

Mr. REICHERT. There would be Detroit, Saginaw, Kalamazoo, Battle Creek, Jackson——

Mr. HOOPER. And Lansing.

Mr. REICHERT. I would say about 8 or 10 cities.

Mr. WINGO. You have several cities or industrial centers with over 100,000 population, have you not?

Mr. REICHERT. Yes.

Mr. WINGO. What is the population of the largest city?

Mr. REICHERT. That would be Detroit—1,600,000.

Mr. WINGO. And you have another city there that has over a million in population, or near it, have you not?

Mr. HOOPER. Grand Rapids has 250,000, perhaps.

Mr. WINGO. Now, how many banks did you say that you have in the city of Detroit?

Mr. REICHERT. Ten.

Mr. WINGO. How many of them are State banks?

Mr. REICHERT. Eight.

Mr. WINGO. Do you recall offhand the percentage of the banking capital of the State banks that is in the city of Detroit?

Mr. REICHERT. I have not any figures on the national banks.

Mr. WINGO. I am talking about State banks, Mr. Reichert. Unless I specifically say so in any question, I am limiting the question to the banks under your jurisdiction.

Do you have that information at hand?

Mr. REICHERT. Could I send that on to you?

Mr. WINGO. No; we will just abandon it now for the present. Suppose that you do this: It might be worth while if you will give us the total banking capital in your State in State banks.

Mr. REICHERT. I can give you that. The total capital is \$78,960,-924; surplus, \$72,145,598.25; and undivided profits, \$19,961,786.

Mr. WINGO. Now, if you will give us a statement when you get back and send it to us, or possibly you can make it before you leave here, showing the total banking capital in your State, State banking capital, then the total banking capital in the city of Detroit, and then the total banking capital in cities of your State over 100,000 population, we will appreciate it.

Do you recall whether or not you have very many State banks in towns under, say, 2,500 population?

Mr. REICHERT. Yes, we have quite a few.

Mr. WINGO. Most of the banks in towns having less than 2,500 population in the State of Michigan are State banks, are they not?

Mr. REICHERT. Yes.

Mr. WINGO. Very few small national banks?

Mr. REICHERT. Yes.

Mr. WINGO. You have no tabulation there available showing the number of your banks that have a capital stock of less than \$100,000, have you?

Mr. REICHERT. No, I have not. I have on the basis of assets, but not on the basis of capital stock.

Mr. WINGO. And, of course, you have not the same information or the number of banks that you have with less than \$50,000 capital, have you?

Mr. REICHERT. No, I have not.

Mr. WINGO. And the assets of those banks?

Mr. REICHERT. I will be very pleased to get that for you.

Mr. WINGO. It will not be necessary. We can get that in another tabulation that will be condensed. Just let that go.

Here is one statement that I read in your prepared statement:

The bank is limited in the extension of branches to an investment of 50 per cent of its capital and surplus in banking house.

Now, that, of course, is clear to you, but it is not to me, and I do not mean that as a criticism. But that does not mean anything to me. Just what do you mean by that?

Mr. REICHERT. We have a State law that prohibits a bank from investing more than 50 per cent of its capital and surplus in a banking house; consequently the extension of branches, which would also be its banking houses, must be limited to that investment, unless they should lease the property, then, of course, they would not have any of their capital funds invested in the branch site.

Mr. WINGO. In other words, you say one of the limitations on branch banking in your State is that restriction on the banks as to the amount of their capital that may be invested in banking houses?

Mr. REICHERT. That is right.

Mr. WINGO. That does not include furniture and fixtures, does it?

Mr. REICHERT. No.

Mr. WINGO. Do you authorize branches beyond the city limits in your State?

Mr. REICHERT. No; we do not.

Mr. WINGO. It is confined to the city?

Mr. REICHERT. Yes.

Mr. WINGO. The great number of the branches that there are in the State are in the city of Detroit, are they not?

Mr. REICHERT. Yes.

Mr. WINGO. And most of them are branches of State banks, are they not?

Mr. REICHERT. Yes.

Mr. WINGO. The national banks only having about 8 or 10 branches?

Mr. REICHERT. No, they have more than that.

Mr. WINGO. I mean in the city of Detroit.

Mr. REICHERT. Yes. This is purely an approximation, but I would say that the two national banks had about 50 branches in the city of Detroit.

Mr. WINGO. Will you do this? Will you prepare for the record a statement limited to the city of Detroit and confining it to those banks that have intracity branches, and give the number of the State banks that have branches and the number of branches of each?

Mr. REICHERT. Of each bank?

Mr. WINGO. And the resources of each of these banks. In other words, separate it both by national and State, giving the number and giving the resources of each one of these banks that have branches.

Mr. REICHERT. Yes, I will be glad to do that.

In previously giving you the number of banks in Detroit I did not take into consideration the banks located in territories recently annexed to Detroit. There are 12 State banks in Detroit as follows:

Name of bank	Number of branches	Resources	Name of bank	Number of branches	Resources
Detroit Savings Bank.....	26	\$50,651,619.96	Bank of Detroit.....	20	50,760,690.20
Peoples Wayne County Bank.....	152	449,564,027.07	Michigan State Bank.....	5	3,254,500.10
American State Bank.....	27	52,928,115.49	Northwestern State.....	2	2,257,820.62
Guardian Detroit Bank.....	None.	63,433,944.06	Redford State Savings.....	None.	2,326,531.98
Commonwealth-Commercial Bank.....	22	23,125,047.88	Peoples State Redford.....	None.	3,253,799.12
			United Savings.....	None.	19,467,965.90
			Union Savings.....	None.	537,833.05
Total number of banks.....				12	
Total number of branches.....				254	
Total resources.....				\$721,561,895.43	

There are two national banks in Detroit as follows:

Name of bank	Number of branches	Resources
First National Bank.....	34	\$173,817,387.95
National Bank of Commerce.....	20	108,704,024.95
Total number of branches.....		54
Total resources.....		\$282,521,412.90

Mr. WINGO. Have you any restriction in your law comparable to that in the State of California with reference to the amount of capital stock as to branches? For illustration, if you wish to establish a branch in the State of California, as I recall, the minimum additional capital required is \$25,000. Have you any such provision in the statutes of Michigan?

Mr. REICHERT. No; the only provision as to capital is the provision that carries the capital up to \$400,000, based upon \$5,000,000 of deposits. From there on there is no provision as to deposits, but the capital is also based upon population. For instance, in the city of Detroit the capital is \$500,000.

Mr. WINGO. In other words, that is the minimum capital for a bank?

Mr. REICHERT. Yes.

Mr. WINGO. Let me take an illustration. Suppose that you have a State bank now that has a minimum capital of \$500,000, and it has no branches. It applies to you for permission to establish 10 intracity branches in the city of Detroit, and you find that those branches should be established. Is there any requirement that you contemplate with reference to an increase of capital by reason of the establishment of these branches?

Mr. REICHERT. No. The only restriction there would be would be one that was previously given, and that is that their investment could not exceed 50 per cent of their capital and surplus.

Mr. WINGO. I am not talking about what your law is; I am talking about your judgment, for which I have a great deal of respect. Would you not think it would be wise, if you do not have it in the law, to have some provision that would require an increase of capital whenever you established a branch?

Mr. REICHERT. Yes; I absolutely agree with you.

Mr. WINGO. Am I in error when I assume that that is one question upon which all bankers agree, and that is that the capital base must bear a proper proportion or a proper relation in size to deposits, loans, and discounts?

Mr. REICHERT. Yes.

Mr. WINGO. In other words, the volume of business that a bank is transacting must have a sufficiently large capital base, measured by the experience of bankers, to support that structure that is resting on that capital base?

Mr. REICHERT. Correct.

Mr. WINGO. The bankers agree that that is a practical necessity?

Mr. REICHERT. Yes, sir.

Mr. WINGO. So, if we should authorize or if we should not authorize further extension, in your judgment would it be wise for us to make some requirement with reference to the establishment of branches by national banks that would insure the necessary increase in the capital base? That requirement ought to take into consideration the fact that it might be that the bank at the time already has a sufficient capital base to support a given number of branches, but there should be some standard there like there is a standard of population, because we have found by experience, although there are some exceptions, that there is a direct relation between the volume of banking business in a community and its population.

Mr. REICHERT. Undoubtedly.

Mr. WINGO. Of course, there are some exceptions. Now, there should be the same assumption that there is some relation between capital requirements and the number of branches that the parent institution has, should there not, and do you think that that would be wise to have appear in the statutes?

Mr. REICHERT. Yes, I think that could be done in two ways, either based upon branches or based upon the ratio of deposits to capital.

Mr. WINGO. In other words, this thought has come to me, and I wanted to get your judgment, with the thought not of laying down so much an iron-clad rule such as, for example, that so much population shall have so much minimum capital, but the point is this, that if we use any fixed standard at all, it should be the volume of business, and that the Comptroller of the Currency should take that into consideration and that in enlarging a business by having additional branches, while there might be a nominal requirement for additional branches, yet the major requirement and the determining factor should be the volume of business which those branches and the parent bank is engaged in, and require the capital base to be sufficiently large to safely support that volume of business.

Mr. REICHERT. Yes, I quite agree with you.

Mr. WINGO. I understand from the Deputy Comptroller, who is present, that while there is no requirement in the National Bank act now, the Comptroller's office does take into consideration the capital base and will refuse to grant the establishment of a branch if the capital base is not sufficient to justify the enlargement of the business that is supposed to flow from the establishment of the additional branch.

There would be nothing whatever wrong in confirming that judgment by proper limitations and definitions in the statute itself, would there be, in your judgment?

Mr. REICHERT. I think that is a proper way to arrive at it, because if you are having branch banks outside of municipalities, you must of necessity get away from population as your basis and go to the ratio of deposits to capital base.

Mr. WINGO. There is another statement in your prepared statement that I have marked, that I do not exactly understand. I will read it.

Difficulties will be experienced in enacting laws to provide for protective and restrictive provisions governing groups, the units of which are operated under national and State laws with different supervisory authorities. This difficulty would not arise in a branch banking system.

What do you mean by that?

Mr. REICHERT. I mean by that—

Mr. WINGO. I am not asking that in an argumentative sense. I have respect for your judgment, and I want to see if there is something there that I have not thought about before.

Just what do you mean by that statement?

Mr. REICHERT. With branch banking it would either have to be a national bank or a State bank; there would be no two supervising authorities, while in group banking you might have a State bank or several State banks, you might have several national banks, you might have an investment company organized under the general incorporation law or under our finance act, which is under the supervision of the State Treasurer, and you might have joint stock land banks, all under different supervisory authorities, and if those institutions were operated by people that were not as conservative as they might be, they could transfer assets, and it would be difficult, unless you arranged to have all of these agencies go in there and make their examinations simultaneously—

Mr. WINGO. I see what you are driving at. Your point is that with a double character in a group, both State and National, there would occur a confusion of regulation and examination.

Mr. REICHERT. Yes.

Mr. WINGO. Now, if we undertake to meet the formation of groups and chains by such regulatory measures as will guard against abuses such as the one you mentioned and some others, do you think, then, that it would be proper to have some requirement that would make the different units that have a State charter submit to the regulation or investigation or examination of the comptroller's office?

Mr. REICHERT. I think so.

Mr. WINGO. In other words, the banking business breaks over State lines?

Mr. REICHERT. Yes.

Mr. WINGO. A great many of our banks now are just as much engaged in interstate commerce as the Steel Trust or General Motors?

Mr. REICHERT. Without question.

Mr. WINGO. So that if any banking operation is being carried on by a corporation, whether it be a national bank or whether it be a holding company organized in Delaware or Michigan, you feel that lodged in the Comptroller's office there should be proper authority which would enable the Comptroller to protect the public along the same lines that the Comptroller protects the public and the depositors and the stockholders in national banks now? In other words, so that he can have a proper investigation and examination of this tie-up that is multiple in its character, that would be proper?

Mr. REICHERT. I would think that the records of these corporations that are a part of the holding company should be open to the different supervising authorities, in order to make a thorough investigation of their affairs. I think that that would almost have to follow in both directions, whether they were institutions of a State or National character.

Mr. WINGO. Can you conceive of any other way that we can protect the public interest and at the same time protect legitimate banking activities? It is just as necessary to protect men engaged in legitimate banking and doing it through group formation, because some very capable and able men, just as sincere as you and I, believe that group banking is ideal—

Mr. REICHERT. Yes, I understand that.

Mr. WINGO. And that under present conditions it is an admirable way to meet certain conditions, and you feel that those who are engaged legitimately, honestly, and fairly in trying to conduct legitimate banking business through the group system should, as well as the public, be protected along the line you suggest, by having the records open to the supervising authorities so that they can detect either mismanagement or maladministration?

Mr. REICHERT. Yes.

Mr. WINGO. There is another phase of that subject that you touched on here in your statement. You said:

From the standpoint of our securities commission, we have now made a ruling that no more stock of holding companies will be approved for sale in Michigan, or for exchange for Michigan bank or trust company stocks, unless it has similar provisions as are incorporated in the articles of association and by-laws of these corporations.

Of course, your blue sky law and your securities commission can, under a State statute, control the question of sales even of these holding companies organized under the laws of Delaware, but suppose that a citizen of Delaware sought to sell his stock in a Michigan bank to a holding corporation that is incorporated in Delaware; you might have some difficulty.

Mr. REICHERT. Oh, yes.

Mr. WINGO. So that is one of the reasons why I see no escape from not only the right but the duty of Congress to supplement what you are trying to do in Michigan, and very properly, not only in connection with the question of sale of securities but in connection with the general tie-up and control of the banking business, by the Federal Government having restrictions and regulations with reference to these purchases and transfers. I do not mean by that to either approve or disapprove the suggestion of the chairman of this committee in his famous 10 per cent bill that he has introduced; I am not committing myself to that until I know more about it.

I believe that is all.

Mr. LUCE. Judge Brand is next.

Mr. BRAND. As I understand your testimony, you have no state-wide branch banking law in Michigan?

Mr. REICHERT. We have not.

Mr. BRAND. And I also take it that you have no law authorizing chain banking systems?

Mr. REICHERT. No; we have not.

Mr. BRAND. You have a law, however, that allows branches to be established in municipalities, as I understand your statement.

Mr. REICHERT. There is no specific mention in our statute of it, but branches have been established in municipalities for a good many years. The law is silent on the matter of branches.

Mr. BRAND. But you said that your State allows branch banking in municipalities.

Mr. REICHERT. Yes. There is no mention of it in the statute, but for 40 years, by consent, branch banking has been permitted in municipalities.

Mr. BRAND. Does that custom limit the capitalization to any particular population?

Mr. REICHERT. The bank capital is based upon population in the rest instance, and then the capital must grow with the increase in deposits up to \$400,000 of capital, and from there on there is no provision for increase.

Mr. BRAND. I confess that I do not understand the following part of your statement, taken in connection with your evidence:

Under this act—

Referring to the act of 1925—

private banks can no longer be established, nor can the private banks in existence at the present time be sold.

I understand that that is the kind of banks that you now have in Michigan, private banks.

Mr. REICHERT. I beg your pardon?

Mr. BRAND. As I understand your testimony, that is practically the only kind of banks that you have in your State, private banks.

Mr. REICHERT. No; we have very few private banks.

Mr. BRAND. Do you draw a distinction between a unit bank and a private bank?

Mr. REICHERT. Yes. Unit banks are corporate banks organized under the statute, while private banks—

Mr. BRAND. Practically all of your banks are the independent unit banks, are they?

Mr. REICHERT. Yes.

Mr. BRAND. Then you said:

It was not until 1925 that the act prohibiting the establishment of private banks was enacted in this State. Private banks are neither under the supervision of the banking department nor under any other department.

Do you mean by that to say that there are now private banks in your State that have no supervisory regulation?

Mr. REICHERT. That is correct. There always have been, but they are getting smaller in number, and they are mostly banks in very small communities.

Mr. BRAND. Are they supplying the needs and the demands of the communities, as a rule?

Mr. REICHERT. It would be rather difficult for me to say, because I am not very familiar with their operations.

Mr. BRAND. Are you in accord with or opposed to Mr. Pole's proposition as to authorizing branch banking, as outlined by him in his statement?

Mr. REICHERT. As previously stated, I would like to keep an open mind on the question of branch banking until the conclusion of your committee is reached, because I might possibly be placed in the position of being asked to make recommendations, which might not be in accord with the way I feel now.

Mr. BRAND. I did not catch that part of your testimony before.

Then you made a statement that is very significant and interesting to me, which reads:

If, however, it is determined to establish a branch banking system, due consideration should be given to the unit banks already in existence in the establishment of branches. * * * Provision must be made to avoid ruinous competition with existing unit banks, as such a procedure tends to impair the position of the depositor.

I am in full accord with that proposition. Now, my question is, if we authorize branch banking as recommended by the Comptroller of the Currency, what suggestion have you to make in order to protect these unit, independent banks?

Mr. REICHERT. It would almost have to be cooperative, I would think, between the State department and the Federal department, because they certainly ought to recognize a State bank in a community that is going along and is prosperous, and not without some consideration put a branch bank in there.

Mr. BRAND. I do not think they should, either, and I feel very strongly about that. The State of Georgia at present has no branch banking law, and if this branch banking system should be authorized as outlined by the Comptroller of the Currency, how could the State have anything to do with it? In other words, if we should pass a branch banking law in the United States, this Federal law would become operative and effective in a State like Georgia.

Mr. REICHERT. No question about it.

Mr. BRAND. And the suggestion that I want from you, and I think it would be valuable, is, what manner of legislation or what suggestion can you make which would protect the unit bank against a branch bank establishing itself there?

Mr. REICHERT. It would necessarily, I think, have to be put in your Federal legislation, to recognize—

Mr. BRAND. I realize that it should be put there, but what would you suggest that we put there?

Mr. REICHERT. I would like to have a little further thought on that matter. My thought now would be that it would almost have to be cooperative with State departments—I would not say it would be necessary to get their approval, but there would certainly have to be cooperation there.

Mr. BRAND. I know, but there could not be any cooperation in the case of a State where they have no branch banking law.

Mr. REICHERT. Don't you think the State would pass a law to meet that contingency?

Mr. BRAND. They might do so, but suppose that they did not?

If you are not ready to give a matured opinion on that, as one of the members of this committee I would like to have you think over my question and, when you are ready to submit your recommendation or opinion, let us have it.

Mr. REICHERT. I will be very glad to do that.

Mr. BRAND. You are willing to do that, are you?

Mr. REICHERT. Yes, sir.

Mr. BRAND. I think that is a very important matter, Mr. Reichert, in States where they have no branch banking law, to see that, if we establish a nation-wide branch banking law, the present existing unit banks which are prosperous and making money and serving the people are not destroyed or their capital structure not impaired.

Mr. REICHERT. I agree with you absolutely.

Mr. BRAND. I am much obliged.

That is all, Mr. Chairman.

Mr. LUCE. Mrs. Pratt, have you any questions?

Mrs. PRATT. I am sorry I was not here to hear his statement. I presume that many of the questions have been covered.

Mr. SEIBERLING. I would like to ask him a few questions.

How do the earnings of your Michigan banks in 1929 compare with other years?

Mr. REICHERT. Without looking it up, I would say the earnings are probably at a greater per cent than they were the previous years.

Mr. SEIBERLING. How do you account for that?

Mr. REICHERT. The call loan rate, for one thing.

Mr. SEIBERLING. Do you mean the call money rate in New York?

Mr. REICHERT. Yes, on the short-time investments.

Mr. SEIBERLING. Have you any estimate as to how much Michigan money was sent to New York, or Chicago, or Philadelphia, on account of the high call-money rate?

Mr. REICHERT. From banks?

Mr. SEIBERLING. Banks and individuals; taken out of banks, of course, by individuals, and sent down there.

Mr. REICHERT. No; I would not want to attempt to estimate it.

Mr. SEIBERLING. Was it a large amount?

Mr. REICHERT. Yes; a fair sized amount. Some large corporations and also many individuals sent money to these centers for investment in call loans.

Mr. SEIBERLING. Do you think it would amount to a good many millions of dollars?

Mr. REICHERT. Yes, sir.

Mr. SEIBERLING. Do you think that the withdrawal of this money from the banks there and sending it to the stock exchange had any effect upon your commercial and industrial business, or your agricultural business?

Mr. REICHERT. Well, that would be rather difficult to say. I would not think so.

Mr. SEIBERLING. Do you think that there was just as much money available as was needed?

Mr. REICHERT. I think there was plenty of money available.

Mr. SEIBERLING. Did not some banks send their money on call to New York?

Mr. REICHERT. Some. Not many, however.

Mr. SEIBERLING. In the cases where these individuals withdrew their money and sent it to New York, or these corporations, did the banks have to go to the Federal reserve banks to borrow?

Mr. REICHERT. Not to an unusual extent; no. I think our borrowings were not exceptionally high until the close of the year. They were rather high then.

Mr. SEIBERLING. That was what month? Have you the figures there?

Mr. REICHERT. Yes; I have the figures.

Bills payable on December 31, 1929, \$45,487,000; rediscounts, \$10,503,000.

That is for all the banks in the State.

Mr. SEIBERLING. Can you give the total amount borrowed from the Federal reserve?

Mr. REICHERT. No, I could not do that. I haven't it segregated.

Mr. SEIBERLING. How did those figures you gave compare with July 1, 1929?

Mr. REICHERT. On July 1, the total notes and bills rediscounted amounted to \$3,723,000; bills payable, \$34,233,000.

Mr. SEIBERLING. What is the difference between those two totals?

Mr. REICHERT. About \$17,000,000.

Mr. SEIBERLING. Did the rates of interest to borrowers in Michigan go up during the high call-money rate?

Mr. REICHERT. Possibly in the large centers. Our rates in banks are quite stationary, especially in the smaller banks.

Mr. SEIBERLING. You do not think that the small banks said to their borrowers that they would have to charge them 1 per cent more on account of the high call-money rate?

Mr. REICHERT. I do not think so; no.

Mr. SEIBERLING. But you do think that that was done in the cities?

Mr. REICHERT. I think their rates went up; yes.

Mr. SEIBERLING. What are the rates under your usury law in Michigan?

Mr. REICHERT. The legal rate is 5 per cent; the amount you can charge is 7 per cent. The limit is 7 per cent.

Mr. SEIBERLING. That has been very satisfactory; has it?

Mr. REICHERT. Yes.

Mr. SEIBERLING. That is all.

Mr. LUCE. Unless there are other questions, the committee will thank Mr. Reichert for coming before it, and adjourn until to-morrow morning.

(Thereupon, at 12.30 o'clock p. m., an adjournment was taken until Thursday morning, May 15, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, MAY 15, 1930

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

The committee met in the committee room, Capitol, at 10.45 o'clock a. m., Hon. Robert Luce presiding.

Mr. LUCE. In view of the memorial exercises to-day at 12 o'clock, if the committee should be in session at a quarter of 12, and I am in the chair, I will declare a recess in case we have not finished with the witness, and then we will resume this afternoon. It is possible, however, that we may finish with the questioning by a quarter of 12, and that will give us an hour.

Mr. Hovey, the bank commissioner of Massachusetts, is here to-day. Mr. Hovey, we shall be glad to be informed by you of your views on branch, chain, and group banking, and on any other features of the banking situation that you care to discuss.

STATEMENT OF ROY A. HOVEY, COMMISSIONER OF BANKS, STATE OF MASSACHUSETTS

Mr. HOVEY. Mr. Chairman and gentlemen of the committee, perhaps I can best approach my views on branch, chain, and group banking by a résumé of the history of such forms of banking in Massachusetts.

Branch banking made its first appearance in Massachusetts in 1902, when the legislature by a general law authorized trust companies, our only State chartered commercial banks, to establish branch offices subject to the approval of the supervising board. That act limited to one the number of branches that a trust company might have and confined its location to the same town or city in which the main office was located and with the restrictions that it be operated solely for the purpose of receiving deposits, cashing checks, and maintaining a safe-deposit business. At that time there were 37 trust companies having total assets of \$164,000,000. To-day there are 101, with assets of \$777,000,000. Their distribution in cities and towns classified as to population is indicated by a table which I am submitting. The figures are as of March 27, 1930.

(The table referred to is as follows:)

Population	Number			Per cent of banks	Assets	Per cent of assets
	Cities	Trust companies ¹	Branches			
(1) 100,000 or more.....	8	37	25	36.64	\$477,580,801	61.44
(2) 50,000 to 100,000.....	7	13	14	12.87	110,581,459	14.23
(3) 25,000 or 50,000.....	13	12	7	11.88	76,702,271	9.87
(4) 10,000 to 25,000.....	42	20	9	13.80	69,605,957	8.96
(5) Less than 10,000.....	285	19	5	18.81	42,777,964	5.50
Total.....	355	101	60	100.00	777,258,452	100.00

¹ Members of the Federal reserve system: (1), 14; (2), 4; (3), 2; (4), 5; (5), none; total, 25.

Mr. HOVEY. Only four of our 101 trust companies have a capital of less than \$100,000, the minimum statutory requirement being \$50,000, and then only in towns of less than 10,000 inhabitants. The smallest town in which a trust company is located has a population of approximately 1,800.

In spite of the fact that there are many towns within which there are no banking facilities, there is no town in all the State which is not within approximately 15 miles of the main office of a trust company or national bank.

Under our statutes the authority for the establishment of branch offices of a trust company is granted by the board of bank incorporation, which consists of the commissioner of banks, commissioner of corporations and taxation, and the treasurer and receiver general, and only after a public hearing has been held and it has been shown that the public convenience will be served by the establishment of the branch. In 1914 the policy was also adopted through legislation to allow consolidating banks to maintain the offices of the consolidating bank as branches provided both banks were located in the same city or town and that the commissioner of banks was satisfied that the public convenience would be served thereby. In 1920 we had our first instance of a branch being established outside of the town in which the main office is located. This was accomplished by a special act of the legislature. Similar privileges have been similarly granted four times since then, but only for the purpose of establishing a branch where no other bank existed. Three of these branches are located in communities which adjoin the town in which the main office is located, the others being in towns within 12 miles of the main office.

In view of the number of special bills which were being introduced in the legislature seeking branch privileges for trust companies not authorized under the general laws and which appeared reasonable and desirable for the extension of banking facilities to our citizens, the banking department was convinced that general legislation should be passed and in 1926 made such a recommendation. This sought to remove the restriction on the number of branches in the town in which the main office was located and also sought to allow the establishment of a branch office in an adjoining city or town provided no other trust company was located therein. The recommendation, which was intended mainly to extend banking facilities to communities where such facilities were lacking, also carried provisions which

would prevent the consolidation of trust companies which were not located in the same town or city. At that time we were opposed to a policy of state-wide branch banking and the most that the bill would have accomplished would have been to provide additional banking facilities within the same or adjoining towns in which the main office of the trust company was located. While the operation of such a law would not have permitted any of the trust companies located in Boston to establish branches in neighboring cities and towns it would have been of advantage to some of the smaller communities in other parts of the State which are unable to support a bank of their own. However, attempts to obtain such a change in 1926 and in 1927 were unsuccessful. Misunderstandings and the opposition of the national banks undoubtedly prevented the adoption of such a measure.

In 1928 an amendment was passed which removed entirely the numerical restriction of branches in cities of more than 100,000 population, and restricted to two the number permitted in cities of 50,000 to 100,000, and to not more than one in cities and towns under 50,000; thus bringing our law more in line with the McFadden Act of February, 1927. These are the restrictions which are in force to-day.

The total number of trust companies having branches is 42. Thirty have one branch, 8 have two, 3 have three, and one has 5; 60 in all.

In 1908 the legislature granted a similar privilege to our mutual savings banks but the conditions under which they were allowed to establish branches varied from those of trust companies at that time in that they might establish one or more branches in the same town where the banking house was located or in towns not more than 15 miles distant, where no savings bank existed at the time. The branches of savings banks were not established for competitive purposes but for the encouragement of thrift and to furnish facilities for savings in communities not sufficiently large to support or maintain a bank of their own.

Among the 196 mutual savings banks only 30 have branches; 22 have 1, six have 2, and two have 3; forty in all. Ten of these banks have branches outside of the town in which the main office is located.

We have never been in sympathy with a state-wide branch policy for Massachusetts, but recognize, however, that conditions in other sections of the country might warrant its adoption.

Concerning chain banking, our experience has been limited to two or three cases several years ago in which one or two persons were the dominating influence. These were made up of trust companies and banks located in Boston and suburbs. These chains were, however, eventually terminated, local interests taking over the control and management in each instance. One resulted in the suspension of the parent bank which caused losses to stockholders and directors to an amount exceeding \$4,100,000. Failures among our banks are, it should be noted, few and except for the situation in 1920 and 1921 the record of Massachusetts among its trust companies is exceptionally clear, there being to date but 11 failures since trust companies were first organized in 1869. Among the national banks in Massachusetts there have been but 15 failures.

Group banking in Massachusetts has developed within the last two years, although not as widespread as in other sections of the country. At the present time there are six groups, all but one of which include both national banks and trust companies. The schedule which I will submit exhibits these groups as constituted at the present time, their assets comprising 45.5 per cent of the aggregate assets of national banks and trust companies in Massachusetts. The trust companies involved aggregate 14.4 per cent of the banking assets of all trust companies, while the national banks represent 59.1 per cent of the assets of all national banks in Massachusetts. At the present time all of these groups are controlled by national-bank interests and include the largest of our national banks.

The success of chain or group banking of course depends upon the character of management the same as in individual banks. Group banking may have its advantages and benefits and much can be offered in its favor as your committee knows. I have no quarrel with the system in theory and would not object to it if proper operation could be guaranteed, but, granting that there are advantages, in actual practice it can too easily be subjected to improper use and when composed of banks operated under more than one code of laws and more than one supervising authority the opportunity for misuse is enlarged. For this reason and from the standpoint of a supervisor, I am forced to look with disfavor on such a system. I much prefer to see local management of a unit bank if the locality can furnish proper support, and believe a community is better served thereby than by the branch of a distant bank. If, however, I were to choose between group and branch banking, I should prefer to see the branch system, with all the difficulties it carries in examining, but I question whether permitting the establishment of branches will of itself stop or even check the growth of the group method. It is realized that regulations governing national banks must necessarily be national in scope but it must also be recognized that conditions differ widely in various parts of the country and policies and methods which may be beneficial in one section may be detrimental in another. Each State should know its own needs best and for this reason it appears to me that if a change is made in national bank branch regulations, the privileges granted thereby should not exceed those granted to state-charactered institutions. This would, of course, necessarily limit branch banking in its widest latitude to the State in which the bank is located.

In Massachusetts more than one-half of the banking assets are made up of savings or time deposits. In the smaller or suburban centers the ratio of savings is greater than in the large cities. Outside of the larger cities banking resolves itself more or less into an investment service. This raises the question of whether the centering of control and management of a group of banks of this type may not open a way for unwise or unscrupulous investment of savings deposits, which deposits we in New England for more than a century have given the greatest possible protection. In so far as Massachusetts State chartered banks are concerned, I feel that they are well protected by the statutory requirement that such savings be segregated from commercial deposits and invested only as savings bank funds may be invested, savings depositors being protected by an elaborate statutory

system regulating the investment and management of their funds. Our experience has demonstrated that such segregation and investment is of great advantage to the savings depositor, who has always been given the utmost protection. Therefore, in considering this subject, it would seem to me that some form of segregation and regulation of assets representing savings deposits should also have attention, if it is within the scope of this investigation.

When a large proportion of the deposits consist of time or savings accounts I do not see how any better service can be rendered by banks in a group than could be worked out by a unit bank under an arrangement with a larger city bank as correspondent or investment counsel.

In view of the limited experience of Massachusetts in these different forms of banking it is difficult at this time to arrive at a definite conclusion. I appreciate that my views have offered no solution of the problem confronting you, but only reflect my opinion as a supervisor and that of many others in my State, namely, that there appears to be no real or immediate necessity for group banking nor wide extension of branch banking privileges in Massachusetts.

I shall be glad to have you call upon me if I can be of any further assistance.

I am submitting herewith the table I previously referred to, showing the group banks in Massachusetts.

(The table referred to is as follows:)

Group banks in Massachusetts

[Hundreds omitted except in columns showing number of banks]

Group	National banks						Trust companies						All banks					
	Num-ber	Capital	Surplus	Undi-vided earnings	Assets	Num-ber	Capital	Surplus	Undi-vided earnings	Assets	Num-ber	Capital	Surplus	Undi-vided earnings	Assets			
First National, Boston.....	12	\$47,950	\$38,500	\$7,200	\$693,941	0	\$7,975	\$7,912	\$2,278	\$82,660	21	\$55,925	\$44,433	\$9,478	\$776,610			
National State, Boston.....	4	27,450	10,265	2,933	255,196	2	250	300	172	4,620	6	20,700	10,565	3,108	259,816			
Federal National, Boston.....	4	2,150	850	296	45,866	4	800	331	296	15,394	8	2,950	1,181	592	61,260			
Worcester County.....	5	2,163	1,675	567	40,050	1	200	100	143	3,774	6	2,363	1,775	710	43,824			
Cape Cod.....	2	150	175	82	2,720	2	325	175	270	5,902	4	475	350	352	8,622			
Western Massachusetts Banking Associates, Greenfield.....	3	425	481	324	6,664						3	425	481	324	6,664			
Total.....	30	73,288	49,906	11,405	1,044,437	18	9,550	8,819	3,159	112,359	48	82,838	58,815	14,564	1,156,796			
Total for State.....	153	112,651	60,829	33,648	1,765,736	101	49,440	46,307	23,468	777,258	264	162,091	137,136	59,116	2,542,994			
Percentage in groups.....	10.6	65.1	85.0	32.0	59.1	17.8	19.3	19.0	13.4	14.4	18.9	51.1	42.9	24.6	45.5			

Mr. LUCE. Mr. Hovey, am I right in my understanding that what we in Massachusetts call trust companies are in all practical aspects the same as State banks in other parts of the country?

Mr. HOVEY. That is right. They are our only State chartered commercial banks.

Mr. LUCE. We in Massachusetts seem to have a monopoly of the use of that term for State banks, and I thought the record would better show that.

Mr. HOVEY. We have no State banks; none as such.

Mr. LUCE. About 20 years ago there was a tendency in Boston toward the amalgamation of banks, and, as I recall it, after 5 or 10 years of experience therewith, there came a revival of demand for charters for smaller banks, the allegation being made that the big banks did not give that personal service and attention which a small bank would.

Am I right in that?

Mr. HOVEY. I think you are; yes.

Mr. LUCE. Now there seems to be a return to the idea of amalgamation. What do you think the tendency is going to be in Massachusetts in the immediate future—toward more amalgamation?

Mr. HOVEY. I think the record shows that in the last few years there has been a lessening tendency in that direction. In 1922 and 1923 we had quite a little activity among the banks toward consolidations, but since that time it has been falling off.

Mr. LUCE. Is one warranted in the inference that if these consolidations fail to give as much service as might be desired, the result will be competition from new, independent units?

Mr. HOVEY. I think that would follow.

Mr. LUCE. That has a rather important bearing upon what we are considering, because of the apprehension in many quarters that consolidation means monopoly and a prevention of the benefits of competition.

In the matter of these consolidations of trust companies, will you set forth, for illustration, the story of the Newton Trust Co.? Tell us what happened to the Newton Trust Co.

Mr. HOVEY. The Newton Trust Co. consolidated with the Newtonville Trust Co. located in the same city. Then there was a new trust company formed under the name of the City Trust Co., which had a branch, and then consolidated with the Newton Trust Co. The Newton Trust Co. had a branch de novo authorized by the Board of Banking Incorporation. So that, after the consolidation it had practically, I should say, five or six offices in Newton. Then there was a trust company organized in Needham, an adjoining town, and I think the directors of the Newton Trust Co. owned the controlling interest. Then, the Newton Trust Co. itself owned the control of the Dedham National Bank, which was located in an adjoining town, and also a national bank located in Westwood, so that they had several offices right in Newton and the adjoining towns, all practically under the same control and management. Then, when the Old Colony Associates began forming their group, the Newton Trust Co. was one of the banks taken, the control of which was taken over by the Old Colony Associates.

Mr. LUCE. This has a bearing, of course, upon one of the more serious problems before the committee at the present time. Evi-

dently this amalgamation has taken place because the persons concerned thought it more profitable. We, of course, are here to guard the welfare of the public, the depositors and borrowers as well as that of the owners of the banks.

Do you hear any criticism of this series of transactions in their bearing on the convenience and business prosperity of the communities affected?

Mr. HOVEY. Not as much at the present time as when the idea first took shape.

Mr. LUCE. The criticism then was one of expectation?

Mr. HOVEY. Yes.

Mr. LUCE. In actual results, does anything indicate to you that this has worked any injury to the public?

Mr. HOVEY. Not in this instance; not in the instance you speak of.

Mr. LUCE. You expressed, however, some apprehension that the system, generally applied, might have unfortunate results.

Mr. HOVEY. It all depends upon the character of the group, that is, of those managing the affairs of the group.

Mr. LUCE. It is easy to understand how the disposition of funds might be fortunate or unfortunate, according to the temper of the management, but it is not so easy to understand, assuming honest management, how an injury will result to the depositors and borrowers, and if there be such injury, it is important that we should know it. For example, we are told by some witnesses that consolidations of this sort injure the borrower because of less generous treatment than would be received from the management of an individual unit, and injures the depositor because of giving him less interest and also exposing him to the new practice of restricting deposits to the larger accounts.

What have you to say on that?

Mr. HOVEY. I have not seen any evidence of that occurring, of having a tendency to act to the disadvantage of the depositor or the borrower, so far as our experience in Massachusetts has gone.

Mr. LUCE. Then, assuming honest management, what is the basis for your own disposition to object to branch banking?

Mr. HOVEY. From the use that may be made of it, where a group contains banks having both Federal and State supervision, from the standpoint of the supervising examiner.

Mr. LUCE. The mechanical phase of it?

Mr. HOVEY. Yes.

Mr. LUCE. Am I right, then, in thinking that in principle you see no objection to branch banking?

Mr. HOVEY. You are speaking of branch banking?

Mr. LUCE. Yes, branch, or any other form of consolidation—in principle.

Mr. HOVEY. No; I can not see any disadvantage to the group system, if that is what you are speaking about just now.

Mr. LUCE. I am speaking of the broader question of the consolidation of banking capital in one form or another.

Mr. HOVEY. I imagine that it could be carried to excess, but so far as our experience has gone I have not seen anything that would lead me to believe that it has worked an injustice yet to the depositor or borrower.

Mr. LUCE. Turning to another aspect of the general subject, of course you and I are familiar with the mutual savings banks and their growth and value, but many of the members of Congress are not so familiar with them, coming as they do from States where mutual savings banks are few or there are none at all, and I think it would be serviceable if between us we brought into there cord something more about the mutual savings bank system.

How many States now enjoy the blessings of that system?

Mr. HOVEY. I think there are 17 States in which there are mutual savings banks. The majority of them are located in New England and New York.

Mr. LUCE. What is the prevailing rate of interest being paid now by the Massachusetts savings banks on deposits?

Mr. HOVEY. Practically one-half of our banks are paying 5 per cent per annum on savings deposits, and the rest of them are paying between $4\frac{1}{2}$ and 5 per cent.

Mr. LUCE. I have inquired of various witnesses in the course of these hearings, and have yet learned of no State where the mutual savings banks do not exist where depositors of savings are getting more than 4 per cent, and they are running from that down to 3 per cent.

Does your general knowledge of the situation lead you to think that this difference is due to the fact that where the mutual savings bank is found, it profits by the unpaid or the little paid services of men who are engaged in it partly through philanthropic motives, or is it due to the fact that where there are no mutual savings banks the banks are not paying as much on their savings deposits as they could pay?

Mr. HOVEY. No. I think it is because the expense of operation of a savings bank is very small compared with that it costs to operate a commercial bank, and in a savings bank after the statutory amounts which are required to be set aside for surplus and all expenses are taken into consideration, the remaining earnings belong to the depositors, and I think that has a great effect on the increased dividend. Then, again, the investments of savings banks are so regulated that they are not subject to the same risks and hazards as are the investments of the assets of commercial banks, so that the losses in savings banks are very small.

Mr. LUCE. Let me inquire further about the matter of comparative expense. My observation would not lead me to think that the employees of savings banks are paid on a greatly different scale from those of national banks.

Mr. HOVEY. No; I think they compare about the same.

Mr. LUCE. And the rent, apparently, is not essentially different. As you and I know, there are several savings banks in Boston that occupy some of the most costly real estate in the city.

Mr. HOVEY. That is right.

Mr. LUCE. Then just what is the item of greater expense in the savings department of a national or State bank?

Mr. HOVEY. Well, the number of employees in a commercial bank is much greater.

Mr. LUCE. It is greater, of course, because of the diversified business, but I mean just confining ourselves to the comparative cost of running a savings bank and the savings department in a national

bank, exclusive of the other national bank business. You will see that I am trying to find out, if I can, any excuse for the payment in a place like the District of Columbia, for example, of only 3 per cent or 3½ per cent on deposits of poor people, when in Massachusetts they can get 4½ per cent to 5 per cent. Nobody has ever given me an adequate explanation, and I wanted to know if there is a reason for it.

Mr. HOVEY. Our savings banks' assets are made up more than 50 per cent of real estate loans, on which the uniform rate practically is 6 per cent, and that forms the bulk of the investment, and the rest is in bonds which are legal for investment and which may not return more than between four and a half and five per cent, but the expense of management is so small that the surplus funds which have been accumulating over a period of years produce an income which carries the overhead, so that it allows the investment of income realized from the investment of deposits to be paid in dividends.

Mr. SEIBERLING. Will you have him put into the record what commissions or other charges are paid in connection with real-estate loans outside of the 6 per cent interest, if any?

Mr. LUCE. Yes. Will you answer Mr. Seiberling's question on that?

Mr. HOVEY. The borrower, you mean?

Mr. SEIBERLING. What the borrower has to pay in addition to 6 per cent when he gets the loan.

Mr. HOVEY. There is nothing paid to the bank outside of the interest.

Mr. SEIBERLING. What does he have to pay?

Mr. HOVEY. He does not have to pay anything unless he goes to a broker to get a loan for him.

Mr. FENN. The borrower can go directly to the bank.

Mr. HOVEY. The borrower can go directly to the bank and make an application for a mortgage loan, and there is no expense entailed in connection with that.

Mr. FENN. There may be a slight expense for examination of title.

Mr. HOVEY. Of course, the borrower pays the title expense.

Mr. SEIBERLING. That is very unusual.

Mr. FENN. Not in New England, even with an insurance company or a bank.

Mr. LUCE. If we should put into the banking law requirements for segregation and stipulations about investments corresponding to those in Massachusetts and of the other mutual savings bank States would it be reasonable to expect or would there be ground for hope that throughout the rest of the country the savings of the poor might be safeguarded and that those savings might bring a rate of return comparable to what they bring in the mutual savings banks States?

Mr. HOVEY. I would think that would depend upon whether conditions would be comparable to those in our States.

Mr. LUCE. What particular conditions?

Mr. HOVEY. In regard to real estate. Practically all of our real-estate loans are on improved property, what we call improved property. Now, that might not be possible for banks in other sections of the country to loan such a proportion of their assets in that manner and thus bring them the income that we get for the same amount of security.

Mr. LUCE. When we passed the McFadden Act, you may remember that we increased the amount that national banks might lend on real estate. This was done in response to the averments from various parts of the country that if the banks were given this privilege they could easily find the mortgages; that they wanted the power to take advantage of the opportunities which they said existed. So I should doubt if the consideration you suggest would greatly affect the situation.

I am asking these questions because I am so anxious to acquaint the rest of the country, as far as I can, with the blessings of our mutual savings bank system.

Now, in the matter of the segregation of deposits, would there be anything unfair, anything in the nature of hardship, if we should make it a part of the national banking act that savings deposits everywhere shall be segregated?

Mr. HOVEY. I should think not.

Mr. LUCE. Turning to another aspect of the savings bank question, it has been brought to my notice recently that persons interested in the present movement toward bank consolidation are seeking to get control of certain Massachusetts mutual savings banks; is that correct?

Mr. HOVEY. There have been attempts made to do that very thing.

Mr. LUCE. I do not understand how it can be done under our laws.

Mr. HOVEY. Only under the guise, you might say, of liquidation of the savings banks, but that is only possible with the approval of the banking department or the commissioner, and I have withheld any such approval.

Mr. LUCE. What advantage would the trustees of a savings bank get out of liquidating? Is this thing done by offering some money gain to them if they will liquidate?

Mr. HOVEY. Well, I do not know just what the consideration has been, but a great many of the savings banks have on their boards men connected with either trust companies or national banks, and it can be readily seen, where only a two-thirds vote of the board of trustees is required to liquidate a savings bank, that it would be easy to have that proportion predominate to the interest of a commercial bank.

Mr. LUCE. I would like to put it on the record, sir, that for one I strongly approve your course. I think it would be a calamity if commercial interests were allowed to invade the mutual savings bank field in that way.

Mr. HOVEY. There is a bill pending in the legislature—I think it is probably in its final stages of passage—that will make it much more difficult for the savings banks to liquidate, and before they can liquidate they will have to try to make arrangements with a neighboring mutual savings bank for consolidation.

Mr. LUCE. I am glad to hear that, and I hope the bill may become law.

Mr. Hovey, to myself at least it seems that in the study we are making here we are confronted by a condition rather than by a theory. We see in every direction a tendency of consolidation making headway in the banking field. Some of the committee are reluctant to approve or support that tendency, but how are we going to stop it? Assuming that it would be desirable to protect and preserve the unit bank, what can we do about it? There are very few,

if any, witnesses who have told us how to stop it if we want to do it. Have you any idea on that?

Mr. HOVEY. I have not any solution of that question.

Mr. LUCE. We seem to be in the dark as to what can be done about it.

Mr. HOVEY. I may add that the only statutory regulation we have in Massachusetts is that two trust companies can not consolidate without the approval of the commissioner, and I know of one instance where such consolidation was contemplated and the approval was denied.

Mr. LUCE. We have nothing to prevent John Jones from owning the majority control of the stock in two trust companies?

Mr. HOVEY. No.

Mr. LUCE. Has there been any suggestion in Massachusetts that it ought to be prevented?

Mr. HOVEY. The only regulation regarding stock ownership is that a trust company may not own more than 10 per cent of the stock of another trust company. Of course, that does not prevent individuals from holding the stock of another trust company for the benefit of another bank.

Mr. LUCE. Is there any marked tendency in our State or in New England, so far as you know, for national banks to turn to the State banking system?

Mr. HOVEY. No. There has been no indication of that, lately at least. I think in the past 10 years there were three trust companies that converted into national banks at the time of consolidation, and three that converted from national banks to trust companies, so that it has been even as far as that is concerned. There were several that converted into national banks for the purpose of consolidation, however, within the last five or six years.

Mr. LUCE. Mr. Fenn, do you desire to ask any questions?

Mr. FENN. I just wanted to ask a few questions, sir. I am very much interested in what you have said about the savings banks, for that same system prevails in my State, Connecticut, as in Massachusetts.

Have you found that this privilege, if I may term it such, granted to your State banks or your trust companies to carry on savings departments, has diminished the interest in mutual savings banks? In other words, has it reduced the number of depositors in mutual savings banks? Has there been competition between the savings departments of your trust companies and the purely mutual savings banks?

Mr. HOVEY. All the competition that there has been has been beneficial, I should say.

Mr. FENN. Been beneficial to the mutual savings banks?

Mr. HOVEY. It helped the mutual savings banks as well as the trust companies.

Mr. FENN. In relation to these dividends or this interest money which is paid to depositors in savings banks—and in Connecticut the same rate is paid, practically, as in Massachusetts, 4½ or 5 per cent—it occurs to me that this difference in interest rates between that paid in Massachusetts and Connecticut and in other parts of the country is due in a measure to the long existence of those banks and to the fact that during that time they have accumulated a surplus,

and I do not know at the present time whether or no the investments prescribed for savings banks and trust funds are the same in Massachusetts as they are in Connecticut. I take it they are very much the same, but in Connecticut the savings banks are allowed to purchase stocks in national banks, and investments have been made by mutual savings banks in Connecticut for a long term of years in those bank stocks, some in New York and some in Massachusetts, as well as some in Connecticut, and by reason of the increased value of those bank stocks which has come about because of the prosperity of the country, the banks have built up a considerable surplus in addition to the surplus by actual accretion in the purely mutual savings banks, and I want to ask you if that has not had a great deal to do, or considerable to do, with this high rate of interest paid to our depositors, and I use the term "high rate of interest" in comparison with the interest paid in other sections of the country.

Mr. HOVEY. I agree that it has helped to build up a surplus.

Mr. FENN. And that surplus has had its effect in the amount distributed to the depositors?

Mr. HOVEY. Yes.

Mr. FENN. In regard to the question raised by Mr. Luce of the difference in expense between a savings bank and a commercial bank, in an ordinary commercial bank in a large city, that has a large capital, surplus and undivided profits as well as a large amount of money, there are several more executive officers, are there not, than in a savings bank?

Mr. HOVEY. Yes.

Mr. FENN. Does not that add largely to the salary expense, if I may term it such of the commercial bank?

Mr. HOVEY. I think there is no question about it.

Mr. FENN. I have in mind one of the largest savings banks in New England where the affairs of that bank are administered practically by the treasurer, one executive officer, and while they have a large number of employees, necessarily so in a bank of that size, with six or seven millions of deposits, on the other hand a commercial bank with, we will say, \$20,000,000 in deposits, which would be a good sized commercial bank anywhere outside of these great aggregations of capital in New York City, would require several more executive officers—for instance, there is the chairman of the board of directors, there is the president of the bank, and there are several vice presidents, men who on account of their knowledge of banking draw considerable salaries in comparison with the salaries received by one or two men in a savings bank of the kind I am referring to.

Has that not been your experience, Mr. Luce?

Mr. LUCE. Yes. Mr. Fenn, I was trying to bring out, if I could, the fact that the expense of handling the savings department of a national bank ought to be no larger than the expense of handling the same amount of money in a savings bank.

Mr. FENN. I see. Of course, we are very much interested in his savings matter, and our mutual savings banks in New England are a matter of pride with us.

I inferred from what you said here that attempts had been made by some commercial banks to take over mutual savings banks and make them a part of their banks?

Mr. HOVEY. That is right.

Mr. FENN. Under the Massachusetts law, that would entail a supervision of the savings department, to see that the savings department complied with the law in regard to investments?

Mr. HOVEY. In a trust company?

Mr. FENN. Yes. I am speaking purely of a trust company.

Mr. HOVEY. Yes.

Mr. FENN. Do you think it would be wise to allow the combination of the commercial department and the savings department under the same roof and practically under the same management?

Mr. HOVEY. You mean, the investments mingled?

Mr. FENN. No; I do not mean mingled; I mean the carrying on of the business. In other words, would a man who is thoroughly versed in commercial banking be as competent to manage a savings department as a man thoroughly versed in mutual savings banking?

Mr. HOVEY. Possibly I can illustrate that by our experience with trust companies that we closed in 1920 and 1921. They all had quite sizable savings departments. In liquidating those 4 trust companies, 3 of them paid 100 per cent to their savings depositors and 1 paid 92.04 per cent. In the commercial department, the most that was paid was 66 per cent, and one paid only 38.07 per cent.

Mr. FENN. In other words, the savings department was the most profitable; that is, dollar for dollar?

Mr. HOVEY. To the depositor, yes.

Mr. FENN. Well, the bank must have had it or it could not have given it to the depositors.

Mr. LUCE. I think it was due to the segregation of deposits in the trust companies, to the fact that the savings deposits were invested in accordance with the laws covering savings funds. They were more safely invested. Am I right on that?

Mr. HOVEY. That is right, and the capital stock liability first goes to help to make up any deficiency in the savings department.

Mr. FENN. Of course, those were well-managed banks?

Mr. HOVEY. No, they were not.

Mr. FENN. Why did they liquidate?

Mr. HOVEY. Because of their poor management and bad condition.

Mr. FENN. Despite that poor management, it did not particularly affect the savings department? In other words, that savings department was controlled absolutely by the law of Massachusetts?

Mr. HOVEY. The same law that controls our mutual savings banks.

Mr. FENN. As I asked before, have you found any ill effects from this competition of the savings departments of the commercial banks with the mutual savings banks? In other words, has it been detrimental at all to the mutual savings banks?

Mr. HOVEY. That would be hard to prove.

Mr. FENN. Do not the people of Massachusetts turn to the old mutual savings banks for the safeguarding of their savings?

Mr. HOVEY. I think they do.

Mr. FENN. It is more or less traditional and historic with them?

Mr. HOVEY. Yes.

Mr. FENN. And it is the same with us in Connecticut.

As Mr. Luce said, we scarcely know what to do in regard to this question of branch, group, and chain banking; it is a very troublesome problem. Has chain banking prevailed to any great extent in Massachusetts?

Mr. HOVEY. No.

Mr. FENN. Is there not a large bank in Boston that has a group of banks?

Mr. HOVEY. You are speaking of chain banking and group banking as being the same?

Mr. FENN. I speak of them as practically the same. Branch banking we would consider different.

Mr. HOVEY. We have one large group—probably not large compared with some others, but I submitted a table which shows 21 banks in that group.

Mr. FENN. Are those banks trust companies or national banks?

Mr. HOVEY. Both.

Mr. FENN. I was very much interested in what you said in regard to the supervision of an organization of that character, that the State examiner could not supervise the national banks, and, contra, the national bank examiner would have nothing to do with the State banks. What solution could you give to rectify or cure that defect? How can we get a national act that will provide for the supervision of both classes of banks, when they are combined in a group?

Mr. HOVEY. I do not know that legislation would be necessary. Full cooperation between the Comptroller's department and the State banking departments would accomplish it.

Mr. FENN. Of course, the only thing I can see that could be done—and I do not advocate it, because I have not studied it enough—would be for the Government to say that in an organization of that kind State and national banks should not be mixed. We certainly could pass an act of some sort to prevent consolidations of State banks with national banks, or their control by holding companies. We have already given that some thought, and will continue to do so.

Mr. HOVEY. That would be the only way.

Mr. FENN. I do not know that that should be done. While it may be practicable, I doubt if it can be done, because, as you suggested, of the two classes of supervision, of the State banks in a group by the State examining authority and of the national banks in that same group by the national authorities, and it would be rather difficult to determine the exact condition of that group. Of course, if they were all national banks in the group, or all State banks, it would not be so difficult.

I think that is all.

Mr. LUCE. Mr. Seiberling, have you any questions?

Mr. SEIBERLING. Outside of real estate loans, what other securities are your mutual savings banks investing money in?

Mr. HOVEY. Government and municipal bonds, certain bonds of gas and electric companies that meet the statutory requirements, and railroad bonds.

Mr. SEIBERLING. Bank stocks?

Mr. HOVEY. Yes, bank stocks of national banks in New England, or trust companies in Massachusetts.

Mr. SEIBERLING. But not outside?

Mr. HOVEY. No; and then there are certain classes of personal loans that they are allowed to make.

Mr. SEIBERLING. Have your mutual savings banks made a good deal of money out of investments in bank stocks?

Mr. HOVEY. I should say yes.

Mr. SEIBERLING. And those stocks generally carry a double liability?

Mr. HOVEY. Yes.

Mr. SEIBERLING. Then their profits may have come from other sources beside that 1 per cent differential between the interest paid on deposits and the interest received on real estate loans—is that true?

Mr. HOVEY. Some of that surplus is made up of profits made in the sale of securities.

Mr. SEIBERLING. They are allowed to speculate to a certain degree?

Mr. HOVEY. If you want to term it that. It is the purchase of bonds.

Mr. SEIBERLING. This segregation of deposits has worked a hardship on the commercial depositor, has it not?

Mr. HOVEY. I do not know what you have in mind.

Mr. SEIBERLING. In your trust companies and State banks, where you segregate the savings deposits and commercial deposits, it has worked a hardship on your commercial deposits, has it not?

Mr. HOVEY. No; I would not say it has worked a hardship on them.

Mr. SEIBERLING. They did not get so much on their deposits as the other people got.

Mr. HOVEY. That was because of the difference in the nature of the assets of the savings department and the commercial department.

Mr. SEIBERLING. If they had all been together and the money had all been mingled, and the loans and securities combined, they would all have received the same percentage.

Mr. HOVEY. It would have worked a hardship against the savings depositor.

Mr. SEIBERLING. But they got their money in full.

Mr. HOVEY. Yes; because the investment of their deposits is regulated by law.

Mr. SEIBERLING. I understand, but I say that it has worked a hardship on your commercial depositors, who did not get 100 cents on the dollar.

Mr. HOVEY. That is right.

Mr. SEIBERLING. They had the security of double liability, too.

Mr. HOVEY. The capital stock liability first went to take care of the savings depositor, who received the greatest protection.

Mr. SEIBERLING. Irrespective of what your law may be up there, do you think that one depositor in a bank is entitled to any more security than any other depositor?

Mr. HOVEY. We treat the savings depositor the same as a beneficiary under a trust. Those are trust funds.

Mr. SEIBERLING. But I am asking you for your opinion about that. Do you think that one depositor is entitled to more security than any other depositor in a bank?

Mr. HOVEY. I think so, yes.

Mr. SEIBERLING. And your reason for that, I suppose, is because he can not draw it out right away—is that the reason?

Mr. HOVEY. Not necessarily. The deposit is made under different conditions. The savings deposit is something that may be a person's entire investment; it often is the entire investment of a small wage

earner or a man of small means, whereas in the commercial department—

Mr. SEIBERLING. You put it entirely on a philanthropic basis?

Mr. HOVEY. Two different bases altogether.

Mr. SEIBERLING. That is all.

Mr. LUCE. It is a quarter of 12, and I presume that members of the committee will want to be on the floor of the House. So we will adjourn to 2.30 o'clock.

(Thereupon, at 11.45 o'clock a. m., a recess was taken until 2.30 o'clock p. m.)

AFTER RECESS

The hearing was resumed at 2.30 p. m., at the conclusion of the recess.

Mr. LUCE. The committee will come to order.

STATEMENT OF ROY A. HOVEY—Resumed

Mr. LUCE. Mr. Wingo, do you desire to address some questions to Mr. Hovey?

Mr. WINGO. Unfortunately I had to be at another meeting this morning and I did not hear his original statement; so I am hardly in a position to question him.

Mr. LUCE. Judge Brand.

Mr. BRAND. In answer to one of Mr. Luce's questions, and in discussing group bank systems, you stated that you had not seen any deleterious effect and had not had discord or any trouble up to date due to existing group banking system, but it did afford means to affect the standing of depositors and borrowers in the banks; that it might become injurious to depositors and borrowers in one of your savings banks, referring to State banks.

Now, did you mean to exclude stockholders or was your failure to do so due to inadvertence. As I understood your statement, it is your opinion that this group banking system might arrive at a point where it would interfere with the banking system of Massachusetts—might injure depositors and borrowers, but you did not include stockholders.

Mr. HOVEY. Well, if it was the result of poor management which resulted in loss, of course it would affect the stockholders. It might become necessary to levy an assessment to make good any losses that might be incurred.

Mr. BRAND. The stockholders would be affected first, it would seem to me. What is the liability in the banks in your State?

Mr. HOVEY. One hundred per cent.

Mr. BRAND. Now, in another part of that statement, Mr. Witness, you stated that the time might come when the group system would have a bad effect on banks generally up there. That is the part that I had marked in your statement and which I wanted to read to you. You used the word "trouble" or it would be productive of trouble to the other banks now doing business successfully in your State. Do you recall that part of your statement?

Mr. HOVEY. I do not recall just what you have reference to.

Mr. BRAND. I refer to page 7 of your statement and this portion thereof:

I have no quarrel with the system in theory and would not object to it if proper operation could be guaranteed, but, granting that there are advantages in actual practice it can too easily be subjected to improper use and when a company of banks operated under more than one code of laws and more than one superseding authority the opportunity for misuse is enlarged.

Mr. HOVEY. It might bring trouble.

Mr. BRAND. Well, now, amplify that statement. In what way would it bring trouble to the other banks? You have in mind what I am trying to call your attention to?

Mr. HOVEY. Well, I do not know as I could answer that in just the way you are looking for. Other than that portion of my State quoted by you.

Mr. BRAND. Will the time ever arrive if this group system of banking gets a foothold in your State and continues to take over banks and go into other States where other unit banks are established, would it be injurious to the banks now in existence?

Mr. HOVEY. That would reflect back on the character of the management of the group. Some groups might be managed very ably which would be beneficial for the smaller bank and also the reverse might be true if the character of the management was not looking toward the proper conduct of its various group members, but rather to its own profits.

Mr. BRAND. If it is bad management on the part of the group bank, how would the other banks be hurt?

Mr. HOVEY. The management of the individual bank as well as of the parent bank—

Mr. LUCE. I think the judge has in mind not the bank in the group but an independent unit bank in the same community.

Mr. HOVEY. You mean a competitor?

Mr. BRAND. Yes. It is not material to my inquiry whether group banks are successfully managed or not. I am more interested at the present in the competitors of the group systems, the independent unit banks. The chairman has the right idea about it. What effect would bad or good management or group banking have on competitors?

Mr. HOVEY. A group bank, in a large group of banks, might furnish more facilities than a smaller bank could alone which might draw business away from the other banks.

Mr. BRAND. Would it not have that effect?

Mr. HOVEY. It is quite apt to—that is, a properly managed group bank would.

Mr. BRAND. Ultimately, is it not possible that it could drive out a competitor?

Mr. HOVEY. I have in mind also another effect. A group bank might offer a higher rate of interest than it could afford to pay to get business from the other banks and thus jeopard its own depositors.

Mr. BRAND. And would it not also hurt the competitors?

Mr. HOVEY. It would hurt both.

Mr. BRAND. I am not now interested in the group bank. I am making my inquiry relative to the independent unit bank.

Mr. HOVEY. Undoubtedly it would feel the effect.

Mr. BRAND. Would it not have the effect of taking depositors away from the competing bank?

Mr. HOVEY. I think so.

Mr. BRAND. Suppose, for instance, this branch of a group system offers to pay 5½ per cent to savings depositors, the other banks not paying over 4 per cent: Would not that hurt?

Mr. HOVEY. Yes.

Mr. BRAND. Suppose the old independent unit bank is lending money at 8 per cent, and the branch of a group bank comes in and says, "We will lend money at 6 per cent:" Will not that hurt them?

Mr. HOVEY. Yes, sir.

Mr. BRAND. Is not there a possibility of a number of group banks or of branch banks setting up this institution in a county where now only unit banks exist of breaking down the unit and independent banks.

Mr. HOVEY. Quite possible.

Mr. BRAND. Would you say that there would be a probability that such would be the effect?

Mr. HOVEY. I do not know that I would want to go as strong as that. The chances are it would.

Mr. BRAND. These group banks would not hesitate to do that if they wanted to?

Mr. HOVEY. They might go to any length to get business.

Mr. LUCE. Is that all?

Mrs. PRATT. I have looked through your statement very briefly but I judge it is largely based upon condition in Massachusetts. I think you stated that almost any village of any size is within 15 miles of a bank?

Mr. HOVEY. Almost any; yes.

Mrs. PRATT. I know Massachusetts very well. That means there is not a rural, or very little rural, community in Massachusetts. Almost all of those little towns flow one into the other. Of course the problem before us is not applicable to an old grown-up State like Massachusetts where I judge you are opposed to anything but the unit bank; that is, you feel that the unit bank——

Mr. HOVEY. It is favored in our State.

Mrs. PRATT. It is favored in your State?

Mr. HOVEY. Yes.

Mrs. PRATT. How would you meet the situation where you have great expanses of country and very scattered communities at long distances from central banks? You could not have, perhaps, a unit bank; it could not exist, and yet those people are entitled to banking facilities and that is the situation I think we will have to meet. I assume from your statement that possibly it will have to be done by each State.

Mr. HOVEY. That is what I mean when I said while we are opposed to a State-wide policy, we realized conditions in other states might warrant its adoption.

Mrs. PRATT. You think it should be confined to state branch banking and not national branch banking?

Mr. HOVEY. That is the way I feel.

Mrs. PRATT. You would be opposed to the suggestion brought

forward here of trade areas or areas coterminous with Federal reserve districts? You think that is too wide?

Mr. HOVEY. I think for the present such changes as come should come gradually. That may eventually be a desirable plan, but I do not think any wide extension should be granted all at once.

Mrs. PRATT. Along the line that Judge Brand has been speaking, about the possibility of a branch bank or a bank belonging to a group coming into a locality where there was a unit bank: After all, the banking business is not altruistic any more than any other business. Do not banks have to meet competition as much as any business? Have you not a perfect right to go in and establish—

Mr. HOVEY. Yes, to some extent, but in Massachusetts we would not approve the establishment of a branch in a community that was already served, unless we thought there was a field there for another successful bank.

Mrs. PRATT. Even though it offered the possibility of giving the people better service and higher rates of interest?

Mr. HOVEY. We would not allow the establishment of a bank just for competitive purposes.

Mrs. PRATT. Do you believe that is perfectly fair to a community?

Mr. HOVEY. If they are receiving ample facilities already, yes; because if you overbank a community you will probably have weak banks instead of strong banks. The trouble is, in many places, there are too many banks.

Mrs. PRATT. I think it has been brought out in the hearings, especially in the Western States, that the various agencies set up during the war, together with the banks already in existence, provided too many banking facilities. You would not be in sympathy at all with the idea of branch banking?

Mr. HOVEY. In my statement I said I would favor branch banking over group banking, but I was not ready to see it become too widespread—that is, the privilege become too liberal.

Mrs. PRATT. You are opposed to such mergers as have taken place in New York? You call those mergers group banking, such as the Bank of Manhattan and the Chase National? That is what you call group banking, is it not?

Mr. HOVEY. When I had reference to group banks, I had reference to a number of banks under the same control; not where they have been consolidated into one bank.

Mrs. PRATT. You are not opposed to these consolidations or mergers but only to group banks or branch banks?

Mr. HOVEY. I have not taken any definite stand.

Mrs. PRATT. You do not wish to?

Mr. HOVEY. No.

Mr. LUCE. Mr. Wingo, has anything else occurred to you?

Mr. WINGO. Nothing else, thank you.

Mr. LUCE. There is one other matter I should like to inquire about for the purposes of the record, and that is in the matter of trust companies that failed, of which you spoke this morning. Am I correct in my impression that the underlying cause for these failures was the advancing of money for promoting?

Mr. HOVEY. I do not know just which ones you refer to.

Mr. LUCE. The Tremont and others?

Mr. HOVEY. There was quite a little evidence of that, but I think the real cause was poor management and poor judgment in making their loans.

Mr. LUCE. Was it in any considerable measure due to making loans on real estate?

Mr. HOVEY. No; I do not think it could be laid to that. Possibly the report of the commissioner in 1922 will give the reason a little clearer. I quote from that report:

A small group of Boston trust companies, controlled by men who lacked the ability, the training, and, in some cases, the moral character requisite to the proper administration of a bank, were so glaringly mismanaged and in such an unsound condition that the most drastic of actions became necessary in order to quickly avert a situation which was inviting a financial crisis in the city of Boston.

Mr. LUCE. We have had some reference in the hearings to what seems a change in the character of banking which has marked the last 10 or 20 years—the lessening of discount of commercial paper and the increase in the investment in securities and the financing of corporate enterprises. Another phase of this question arose when the McFadden bill was under consideration, the testimony at that time showing a marked desire, on the part particularly of the western banks, to have larger opportunities to place their funds upon mortgages.

Do you look without any apprehension on the increasing part that the banks are playing in the matter of securities?

Mr. HOVEY. I do not know as I have given any particular attention to that phase of it. Some of our trust companies have organized corporations for that purpose which have been controlled by banks. The prime purpose was for the purpose of buying and selling of securities, which previously had been carried on by the banks themselves; that is, they separated the two businesses.

Mr. LUCE. The allegation is made that this development of which you are speaking, has tempted some financial institutions to unload on trust funds the less safe securities which the bank may undertake to handle in an allotment for placing securities throughout the country, and that affiliated investing institution finds it almost impossible to exercise independent judgment as to the value of the security when the possibility of a profit on the part of the bank is a factor in the situation. Have we been troubled with that in Massachusetts?

Mr. HOVEY. No. I think I can say quite definitely that the trust companies have been very careful in the investment of trust funds in their keeping and they have not taken advantage of any issues in which they may have been interested in selling. Some of them have even gone so far in their trust department as not to purchase any securities from their investment corporation.

Mr. LUCE. Would it be desirable to enforce that righteous principle by law or can it be safely left to the consciences of the banks of the country?

Mr. HOVEY. Speaking for Massachusetts only, from our experience I think it can be left to our own banks. As you know, we have no statutes that regulate the investment of trust funds. I think the record has been exceptionally clear in that matter and the losses have been very rare.

Mr. LUCE. I think, sir, that concludes our inquiry unless you think of something else you would like to volunteer.

Mr. HOVEY. I do not think of anything just now, but I shall be glad—

Mr. LUCE. If any further suggestions occur to you or anything you wish to cover, I am sure that Chairman McFadden will be very glad to insert them following your statement in the record, for all the information and advice you can give will be very much desired.

Mr. BRAND. I have one more question I would like to ask.

Mr. LUCE. Very well.

Mr. BRAND. Do your banks belong to the Federal reserve system?

Mr. HOVEY. Twenty-five out of one hundred and one trust companies are members of the Federal reserve system.

Mr. BRAND. Of the regular commercial banks?

Mr. HOVEY. Yes, sir; but none of the mutual savings banks are members. Twenty-five of the trust companies are members.

Mr. BRAND. What percentage of all banks in the State belong to the Federal reserve system—approximately?

Mr. HOVEY. When you say "all of the banks," do you want to include the savings banks or trust companies?

Mr. BRAND. No, just the commercial banks, including, if the words include trust companies, in your State. What percentage?

Mr. HOVEY. Twenty-five per cent, approximately.

Mr. BRAND. I am very much obliged to you, Mr. Witness.

Mr. LUCE. The committee will stand adjourned until to-morrow morning at 10.30.

(Whereupon, at 3 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Friday, May 16, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 21, 1930

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

The committee met in the committee room, Capitol, at 11 o'clock a. m., Hon. Robert Luce presiding.

Mr. LUCE. The committee will come to order.

Mr. Nahm, we are sitting for the purpose of getting such information and judgment as we can in the matter of branch, chain, and group banking, and we shall be grateful to hear your views in the matter.

STATEMENT OF MAX B. NAHM, VICE PRESIDENT, CITIZENS NATIONAL BANK AND BOWLING GREEN TRUST CO., BOWLING GREEN, KY.

Mr. NAHM. Banking is a business, the people's business. It has common law rights. It deals in credits which grow out of commerce and agriculture, in the production and exchange of the needs of human life.

In a nation where over 90 per cent of the business transactions are settled by check, where the humblest worker carries a bank account, where the bank and its facilities are indispensable instruments to sustain modern life and enterprise, any profound structural change should arrest attention and invite study.

The individual in the banking business is the genius of the American people in financial action. The history and development of the individual began only with our Declaration of Independence, that all men are born free and equal. All history before that time was the story of the overlord.

Right into the beginning of banking went the evolution of the individual, the unit banker. His history has run parallel with our changing fortunes. Under his financial administrations this country has grown great and rich.

In the last decade business in general has tended toward larger operating units with huge capital funds, more efficient and trained management, grinding out mass production. Banking is following at the heels of this movement.

The depositing public must be protected but there should be no experimenting about it. Theories should be well considered, but only slowly adopted. Changes are needed to adjust the banking business to new conditions but only such changes as will accomplish that, and no more.

It is too early to arrive at definite conclusions or to make positive determination upon the various systems of banking that are now

being put into operation. However, there seems to be a feeling in some minds that the unit system has broken down. To this I desire to address myself.

The total number of all banks in the United States at the end of 1929 was 24,645 head offices; adding branches numbering 3,547 gives a complete total of 28,192.

Of these, 21,839 were unit banks; that is, banks having no branches and belonging to no group or chain, or about 70 per cent of all.

The loans and investments of all banks were \$58,461,000,000; of unit banks \$28,445,000,000, about 48 per cent.

This large proportion of banks with a business so great is too vast to rest under the imputation of failure. Is it not incumbent upon us, while we are studying branch, chain, and group banking, to analyze all statistics concerning unit banks and attempt to arrive at definite means to protect them by laws and by well thought-out conclusions? If the unit banks need adjustment to the changing conditions of to-day, and no doubt they do, is not this our first duty before we convert ourselves to some new theory of banking, perhaps not germane to our theory of life?

Fortunately, the recent hearings before the House Committee on Banking and Currency furnish us with ample statistics for complete analysis as to bank failures.

Let us separate banks according to capital into three groups, banks of \$1,000,000 and over, banks of \$100,000 and over, and banks of less than \$100,000.

In the last 10 years, no banks with \$2,000,000 capital and over failed, and only four banks, one national and three State, failed with capital of \$1,000,000 and over. So this first class is practically eliminated.

In the 8-year period ending in 1927, out of a total of 4,513 bank failures, only 12 per cent had a capital of \$100,000 and over.

Eighty-eight per cent of failed banks fell in the third group, under \$100,000 capital.

Now in the 9-year period, 1921-1929, 4,985 banks failed, 91.6 per cent in towns of 10,000 inhabitants or less.

Therefore, the great middle class of banks, the typical American unit banks, in towns of over 10,000 inhabitants, were responsible for only 8.4 per cent of the failures, and the banks of \$100,000 capital and over up to \$1,000,000 capital were responsible for only 12 per cent of the failures. These banks which we may class closely together have a fair record, and may well demand study with a view to the protection of the law and betterment of their fairly good condition. They are not great sinners in the failed class, and need only to be adjusted to the changing conditions of our generation. They are surprisingly clear of trouble.

Then let us consider the third class of banks where really all the trouble lies. The banks in towns of less than 10,000 inhabitants are responsible for 91.6 per cent of bank failures, and the banks of less than \$100,000 capital for 88 per cent of the failures.

The last decade that we have selected for study has been subjected to the severest of all tests, inflation and deflation following a great war. The agricultural States have borne the brunt of this. We find—and I got this from Mr. Busby—that four agricultural States on the

Atlantic coast, North and South Carolina, Georgia, and Florida, with a population in 1920 of 7% per cent of the population of the United States, had 729 or 15½ per cent of the bank failures. In the Northwest, nine agricultural States, Minnesota, Iowa, Missouri, Oklahoma, North and South Dakota, Nebraska, Kansas, and Montana, with 14½ per cent of the population, had 2,768 or 56¼ per cent of the bank failures.

So these 13 States with 22 per cent of the population had 71.6 per cent of the bank failures, while the remaining 35 States with 78 per cent of the population had only 28.4 per cent of the bank failures.

This outline does not complete the picture. Not all of these banks failed. The communities failed. There was a pioneer need for banks at crossroads and in villages. Many were speculations started to sell safes, fixtures and jobs. Their service and clientele passed on to the larger cities when hard sense operating on hard roads with cheap automobiles and trucks came. With these disappearing banks went the country store, the country doctor, the preacher, and the inhabitants. They all went together. These banks would have closed their doors, had they been branch, chain or group. This is an economic, not an eleemosynary development, and do not imagine that remote city branches would remain open under such pressure. This is a fundamental change. To stay on the map a town must locate factories or colleges, or become a center of a network of roads and draw from other towns. Sixty per cent of failures were in towns of 1,000 or less; 63 per cent had \$25,000 capital or less.

This analysis reveals the strength and also the weakness of unit banks. This weakness in some small banks in some small towns can not be entirely eradicated. It does not require branch banking to eliminate this trouble, for it is self eliminating by the eventual disappearance of these banks. Were they branches, or groups, or chains, they would disappear in the long run for the business on which they should subsist is passing away. Parent banks might be able to stand the loss, but in the long run common sense would close such branches.

It can not be the purpose of government to create size to satisfy the ambitions of bankers, but to protect the depositing public. Even the frozen real estate loans that have closed many small banks are not indicate of small bank frozen brains, for the large institutions, the Federal farm loan banks and the great insurance companies have suffered severely from the same cause, and some joint stock farm loan banks have fallen into receivership from the same cause. This is a matter of judgment, not size. This landslide to bigness, mass production, creation of enormous units, and ambition for great profits is a natural development, but it does not reach our problem.

Our free and independent unit banks standing on their own foundations have the resources within themselves to meet these emergencies. A small unit bank in a growing community can be properly conducted, and can make good loans intelligently. Local credit can thrive best in a unit bank, and local capital there has its widest scope and opportunity. The president and board of directors are residents and prominent in all local affairs. Its business is germane to that community alone.

To have our problem well before us we must recognize the fact that within the last 20 years small banks have experienced losses of sources of profit peculiar to themselves. Wisely or unwisely, they lost their

exchange on checks, charges on growing float, loans to and deposits of small merchants driven out by chain stores, and these chain stores seldom carry worth-while deposits and never borrow from small banks. Taxes, insurance, rents, salaries, and incidental charges have grown out of proportion to increased business.

What are the remedies?

Broadly, better banking, where there is a filed for a bank to thrive in, and there must be a scientific revision of banking laws and banking practices in unit banks.

The generic difficulty with small banks is that they have no proper diversification of business or assets. The trust business is more permanent than the banking business, and in the long run more profitable. The investment business is growing and calls for a securities department. To include these departments means consolidations and mergers of banks of which there are far too many, 20,000 in towns of 10,000 inhabitants or less. This is only possible in fair-sized communities.

Diversified assets mean a proper secondary reserve and balanced investments that all banks should have to render them immune from crop failures or neighborhood collapses. Such a reserve consists of good bonds and marketable commercial paper.

Branches and groups do shift funds to locations where they are needed, but so does membership in the Federal reserve system. The small unit bank in any community can maintain its independence in competition with any multiple system of banking by becoming a member of this system. It can hold its traditional relation with its city correspondent and besides secure a guaranty against tight conditions by the protection which the Federal reserve system has afforded for 16 years. With this anchor to windward, it can serve its patrons in comfort under any conditions that may arise in good banking. It is the one guarantee that the unit bank can continue to exist.

May we suggest a few preventive laws to afford protection to depositors?

No new bank should be chartered with less than \$50,000 capital. Seventy-one per cent of all such banks have failed in the last 10 years.

Mr. DUNBAR. Seventy-one per cent of all banks with less than \$50,000 capital have failed in the last 10 years?

Mr. NAHM. Yes; 71 per cent of all banks chartered with less than \$50,000 capital have failed in the last 10 years.

Now, continuing:

No bank should be chartered where the banking needs are supplied and the field is properly served.

No bank should be chartered unless its personnel includes men trained in banking.

No fees collected from banks by States should be used for any other purpose than to secure highly trained examiners.

Then banks should charge for unprofitable services and recoup their lost profits by proper service charges on unprofitable accounts, charges upon float that is paid by them, charges for expense incurred by issue of bad checks. This requires some backbone in a country banker, but no other business man suffers so greatly for unpaid services.

The human element enters largely into our problems. The psychology of the human being must be considered.

It takes time to train men to operate the huge aggregations of capital now gathering into the banking business. It requires health, brains, and experience. Many men in these great financial mills are breaking under the strain. They frankly declare that they can not see through it all, that it is too big.

Most country banks are 1-man banks, men who, from a banking standpoint, though perhaps not in organizing ability, are abler men than the men developing the multiple metropolitan banks.

Reduce this man to a managing clerk, take away from him his full authority and autonomy, give him his daily instructions and a complex set of rules to abide by and you will in time make of him a mere cog in a great machine, instead of an individualistic, resourceful American.

It is a melancholy experience to be thrown with men whose originality and initiative have been crushed out of them by the weight of authority. That is paternalism in its deadliest form.

The young man will not seek the branch-banking business, nor will those who are employed be tempted to remain memorizing a set of rules, with little opportunity to develop initiative, with no ambition left to become the president of a bank, but only a manager at a smaller salary. The honor and the stability of the job is gone, and local understudies will not be found.

Multiple banks naturally seek the best banks in the towns, and buy and control them. If they retrograde, the one man gone, and fail to pay, as many will, the bank will be closed. What then is left? Those banks not so good are left, and the result may be, if not disastrous, worse than it was before.

The country banker knows men and localities. The manager knows rules and collaterals. Within his special sphere of activity, the country man is just as keen as his city brother.

At best, the local manager can be only advisory and must refer back to the head office all great problems. Men of high type will leave this nature of employment and the substitute may be a robot, bound by rigid instruction, enforced in a mechanical way.

The enterprises of a town will interest a unit banker, and not appeal to a branch of a distant city. The one man has knowledge of the individuals, their character and ambitions, and sympathizes with their ideas of developing the city.

The other, being under foreign sway, can not enter into that intimate relation and would refuse such loans. It takes a high order of talent to estimate and make such a loan correctly, but on such decisions the growth of the country commercially has largely been predicated. Destroy the power and disposition to foster this growth and you have broken the main-spring of American resource. The history of many of our greatest enterprises began in such loans.

So, if we find that the unit system of banking has not broken down as a whole, but only in part, and only in definite sections, in only some small banks, in some small towns, is it not then worth while to protect, develop and foster the remaining unit banks?

Let us realize that unit banking is a profession, and that multiple banking is a large-sized business.

Let us adhere to unit banking and depart from it only so far as developments make it necessary to do so. Let us abandon it only

to the extent that we must to eliminate its defects, and restore it to its former efficiency.

Mr. LUCE. Mr. Nahm, you have just suggested some laws that would afford protection to depositors. Is it not a fact that a considerable number of these banks that have failed were chartered by the States?

Mr. NAHM. Yes, sir; more of them, sir, than national banks.

Mr. LUCE. Then your remedy would not be sufficient unless the States cooperated?

Mr. NAHM. No, sir; these would mainly be in the States.

Mr. LUCE. Would you think it advisable to try to find any way in which we could coerce the States or control the States in that regard? I might say that for a long time I have been of the opinion that one of the fundamental factors in this situation is the maintenance in this country of two different systems of banks, one national and the other State, and I have feared that sometime it would lead to much more important trouble than now exists. Your suggestion here, however, brings it right to the surface. How can we do anything in the direction of controlling or coercing States in this regard?

Mr. NAHM. Well, sir, in the first place, with reference to these suggestions I think the national bank law allows banks of \$25,000 in small towns, of 3,000, I think, or less. I would suggest, if I may, that that should be increased at least to \$50,000, if not to \$100,000, provided that the States themselves would also go to \$50,000 or \$100,000. Even if the States did not, I might suggest that it should go at least to \$50,000.

Mr. SEIBERLING. May I interrupt for just a minute?

Mr. LUCE. Yes.

Mr. SEIBERLING. In connection with that 71 per cent of failures, did you give us the percentage of national bank failures and State bank failures? You did not give us that, did you?

Mr. NAHM. No, sir, I did not, but I think I have it here.

Mr. SEIBERLING. It would be interesting to know that.

Mr. NAHM. In nine years, the failures of national banks numbered 763; of State banks, 4877.

Mr. SEIBERLING. What would that percentage be?

Mr. NAHM. If you want the failures in small towns, I think that I have that also.

Mr. SEIBERLING. Can you give us those percentages with respect to the banks having less than \$50,000 capital?

Mr. NAHM. As to those that failed and that had less than \$50,000 capital?

Mr. SEIBERLING. Yes.

Mr. NAHM. Those that have failed with a capital of below \$25,000 are 63 per cent.

Mr. SEIBERLING. What percentage of those were national banks and what percentage State banks?

Mr. NAHM. I can not tell you that, but I will go into that in another way in a minute.

Those that have failed with a capital below \$50,000 constitute 71 per cent, and that comes from Mr. Pole's testimony, in book 1, page 11.

Mr. SEIBERLING. What I am after is what percentage of those constituted national banks and what percentage State banks?

Mr. NAHM. Well, the failures have been for the most part in the relation of 6 or 7 State banks to one national bank.

Mr. SEIBERLING. How is that?

Mr. NAHM. The percentage of banks that have failed has been in the relation, acutal numerical relation, of 6 or 7 State banks to one national bank; but, counting the number of State and national banks, the relation has been about 3 to 1.

Mr. SEIBERLING. That is all.

Mr. LUCE. If it should prove impracticable to coerce these States into adopting a wiser banking system, would we not then be justified in attempting to meet the situation in the way Mr. Pole suggests?

Mr. NAHM. Yes, sir.

Mr. LUCE. What is your judgment of Mr. Pole's attitude in this matter?

Mr. NAHM. I would be in favor of Mr. Pole's proposition of having branches in limited trade areas under the following restrictions:

First, that these branches be extended only to cities of 10,000 or less inhabitants, because that is where, as I attempted to show, the trouble lies;

Second, that banks acquiring such branches must be of a high type, well officered and well conducted, with a successful business of its own, and to be under the control of the Comptroller of the Currency;

Third, that the territory invaded be one not already completely served by existing banks, this to be left to the judgment of the Comptroller of the Currency;

Fourth, that no branch be placed in a territory where there is no need for a bank, and where the population and business have passed to a larger city, such matters to be determined by the Comptroller of the Currency.

With restrictions of this nature, Mr. Pole's proposition would probably be one of the solutions of the banking troubles of small towns and small banks.

Mr. LUCE. We observe that wherever there is an attempt, either National or State, to interfere with the tendency toward consolidations, apparently we simply drive the men who see profit in consolidation to other recourse. For example, within the last two or three days the newspapers have carried the announcement that 50 banks in Pennsylvania are in process of being amalgamated in a group system. So it would seem that if there is to be Federal legislation, we shall have to anticipate, if we can, the effect of restrictions that do not go any further than what you suggest.

What are we going to do about a situation like that in Pennsylvania, or should we do anything?

Mr. NAHM. Mr. Luce, I would say that any system of banking with an ideal set-up of capital and surplus and secondary reserve, with diversified investments in a territory where such a group can profitably operate, is all right; but the trouble will come, if it comes, when the men and the conditions are not so ideal.

Now, what I fear and what I tried to bring out in my statement is a condition when it arises of having set-ups and men to run them not so ideal.

Now, as to what to do, as far as I have been able to observe from reading all the testimony and thinking over the matter, Mr. Pole's

proposition, with the restrictions that I have tried to bring out, would be, I believe, a very valuable set-up.

Mr. LUCE. Mr. Hooper, have you any questions?

Mr. HOOPER. I came in after Mr. Nahm had started his statement, and so I have not any questions to ask, but I do want to say that from what I have heard of his statement I think it is one of the most valuable and most instructive that we have had in this series of hearings.

Mr. BRAND. Mr. Witness, I did not get your last answer to the chairman's question. What was it you said about Mr. Pole's proposition?

Mr. NAHM. I believe that, with the restrictions that I have stated—did you hear those restrictions?

Mr. BRAND. Yes.

Mr. NAHM. I think it would be as valuable a means of reaching the proposition as any I know of.

Mr. BRAND. I am much obliged. I did not hear your answer.

Mr. LUCE. Mr. Seiberling, you are next.

Mr. SEIBERLING. I take it from hearing your statement that you think the unit banker would be more interested in a new enterprise in a small city than the branch manager,

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And the small enterprises grow into large enterprises in a community?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And the banker not only has to loan this small enterprise money and nurse it along, but he has to give a lot of his personal time and attention to it?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. He has to do that for nothing, does he not?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And it is that personal interest and business judgment that the unit banker gives to the small enterprise that you think would be lost in branch banking?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. You say you do not believe that a bank should do anything that is not profitable?

Mr. NAHM. Yes, sir; that is what I said.

Mr. SEIBERLING. But you do think that it is justified in giving its time and loaning its money, and maybe permitting over drafts at times to a new industry, to help build it up?

Mr. NAHM. What I tried to bring out—

Mr. SEIBERLING. I know, but if you will just get that question, I think you can answer it.

Mr. NAHM. What was the question?

(Question repeated by the reporter as above recorded.)

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Now, you are familiar, I suppose, with the custom of charging \$1 a month to individuals where they do not have a balance of so much in their accounts?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Do you do that in your bank?

Mr. NAHM. No, sir. We are just beginning now to put in the service charge of 50 cents a month, where an account does not average as much as \$50 during the month.

Mr. SEIBERLING. You do that on the theory that you should not carry on account at a loss?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. You do not think the principle that applies to a small industry in your town should apply to the individual, then?

Mr. NAHM. I can not say that I do.

Mr. SEIBERLING. Is not the individual likely to become a big depositor also?

Mr. NAHM. Yes, sir. The purpose of the service charge is not to collect, but to bring the individual to have a worth-while bank account, for his own good as well as for the good of the bank.

Mr. SEIBERLING. By the way, who invented the idea of making this charge? It is rather a new thing, just a few years old.

Mr. NAHM. I do not know, sir.

Mr. SEIBERLING. Who is putting it in your bank?

Mr. NAHM. We are, ourselves.

Mr. SEIBERLING. Who is furnishing the scheme, and what are you paying for it?

Mr. NAHM. Nothing.

Mr. SEIBERLING. There is some institution in this country that has been doing that and charging the banks for it.

Mr. NAHM. I think so, but the American Bankers Association will furnish all the information you want without charge.

Mr. SEIBERLING. But, in the beginning, it was simply somebody's scheme to make money for himself, to get the banks to put this in operation.

Mr. NAHM. I do not know, sir.

Mr. SEIBERLING. How do you think a young married man feels when he is telling his wife that he has been unable to carry a balance in the bank of \$100 and the bank has closed his account, and he can not any longer write checks on the bank, but they must carry their money around in their stockings and pay their bills in cash?

Mr. NAHM. Well, sir, I do not think the banks close his account. If he does not carry \$100 in the bank, they charge him 50 cents in our neighborhood.

Mr. SEIBERLING. They charge him a dollar in many banks, do they not?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Are you going to pay any interest to your depositor who carries more than a balance of \$100?

Mr. NAHM. No, sir.

Mr. SEIBERLING. What kind of a proposition is it that only works one way? Do you not think that when an account becomes profitable, you should then pay some interest on that account?

Mr. NAHM. No, sir.

Mr. SEIBERLING. Why not?

Mr. NAHM. For the reason that banking includes many more things than merely carrying their accounts. It includes taking care of a man's money so that when he calls for it, it will be there for him, which he can not do for himself. It includes paying his check, no matter where he goes in the United States or Canada, or, sometimes, Europe.

Mr. SEIBERLING. Let us put it another way. You think, then, that a bank should be paid for any service that it renders at a loss?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. But it is under no obligation to pay for a service it renders at a profit?

Mr. NAHM. It does pay for a service that it renders at a profit, Mr. Seiberling, in the service itself. In other words, if there were no bank in the community, and some communities have none, one would have to carry his money in his pocket or in some secret place at home and probably have it stolen, putting a premium upon a robber coming in and maybe killing him or his family. A bank renders a service when it carries money for a man and is ready to pay it at any and all times when the check is presented.

Mr. SEIBERLING. There are many banks that put on campaigns to get accounts. You have heard of that, have you not?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. They spend two or three weeks putting on their campaigns, and they go around to back doors and get servant girls and chauffeurs and everybody else to open accounts with them, and then a year or two later they come around, after these people have opened these accounts, and after proclaiming how many new accounts they have got, and then they say to these people, "Now, you are not carrying enough balance here, and you have to close your account and get out of the bank.

What do you think of that?

Mr. NAHM. That they have to close their accounts and get out of the bank?

Mr. SEIBERLING. Or pay \$1 a month.

Mr. NAHM. Of the banks with a capital below \$50,000, 71 per cent, as I stated, have failed. Now, the reason that those banks have failed is because a bank does more for nothing than any other character of business.

Mr. SEIBERLING. But you are not answering my question.

Mr. NAHM. I am going to answer it.

Mr. SEIBERLING. I asked you whether you thought it was right.

Mr. NAHM. Yes, sir; I do think it is right.

Mr. SEIBERLING. To solicit an account and at the time impose no condition upon it, and then come around later and tell them that they have to carry a certain balance or pay \$1 a month or get out do you think that is all right?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. You do not think that the lawyer, for instance, does a lot of work for nothing, do you?

Mr. NAHM. Of course he does, but not as much as the banks.

Mr. SEIBERLING. You do not think the doctor does, do you?

Mr. NAHM. Yes, sir; but not as much as the banks.

Mr. SEIBERLING. What makes you think that a bank is a charitable institution?

Mr. NAHM. A man steps into a bank, say in Baltimore, with a check on one of the banks in Washington, and they give him the money, and it is three or four days before they get that money back. That is a service for nothing.

Mr. SEIBERLING. They do not do that for a man who has not good credit at the bank. They will cash his check for him if he has good credit, but he must furnish a good indorser for the bank.

Mr. NAHM. Our bank would do it for you, sir, although we do not know you, provided that you satisfied us as to who you were.

Mr. SEIBERLING. With a good indorser in your town.

Mr. NAHM. No, sir; you would not need any indorser in that town.

Mr. SEIBERLING. Where is the place where your bank is?

Mr. NAHM. Bowling Green, Ky. Our banks do that, Mr Seiberling.

Mr. SEIBERLING. I have pursued that subject far enough, and I will ask you another question. You are the head of a national bank?

Mr. NAHM. I am vice president of a national bank and also of a State bank.

Mr. SEIBERLING. What real service do you get out of the Federal reserve system?

Mr. NAHM. In order that you may know, I am a Federal reserve director at St. Louis.

Mr. SEIBERLING. That is all right, but what real service do you get?

Mr. NAHM. I think the greatest service that any bank can possibly have—

Mr. SEIBERLING. My question is, what does your bank get out of the Federal reserve system?

Mr. NAHM. In the first place, we have gotten out of the service an elastic currency; we have gotten an absence of panics—

Mr. SEIBERLING. Yes; I understand that, but, confining yourself—

Mr. NAHM. We do not have money panics.

Mr. SEIBERLING. But what I am aiming at is this, the rediscounting of paper, and so forth.

Mr. NAHM. We get the rediscounting of paper when we need it.

Mr. SEIBERLING. Do you think that the law should be liberalized somewhat in that respect so that member banks can rediscount some forms of paper that they can not discount now—for instance, that paper secured by approved municipal bonds, or something of that kind?

Mr. NAHM. Well, they can rediscount municipal warrants, with short maturities.

Mr. SEIBERLING. I am talking about municipal bonds, good municipal bonds.

Mr. NAHM. At the present time there is in eligible paper about \$7,600,000,000.

Mr. SEIBERLING. But that has been reduced. The corporations do not have these acceptances to the extent that they used to have them.

Mr. NAHM. Commercial paper is coming back slowly. I dare say that within a year or two the amount of commercial paper will be very nearly as big as it used to be, and as this financing that the corporations have done becomes absorbed into their plants they then go back to the banks.

Mr. SEIBERLING. You see no reason why paper secured by good municipal bonds, or paper secured by good commercial bonds, should be subject to rediscount in the Federal reserve, do you?

Mr. NAHM. Well, provided they are exceedingly good municipal bonds.

Mr. SEIBERLING. If the law provided certain limitations, where the tax duplicate was so and so and the limit of indebtedness was such? They would have to put in a limitation in the law in order that they might be good.

Mr. NAHM. If they are absolutely high-class municipal bonds; yes, sir.

Mr. SEIBERLING. It would help, in a stringent money market, to have municipal bonds eligible?

Mr. NAHM. Yes, sir; but with restrictions on the type of municipal bonds.

Mr. SEIBERLING. That is all.

Mr. LUCE. Mr. Dunbar, do you desire to question the witness now?

Mr. DUNBAR. Mr. Busby is so many times left out because he is the last on the list, I should like to yield to him now and give him a chance, and take up my questions after a while.

Mr. BUSBY. I am not particular at all about proceeding at this time.

Mr. BRAND. May I ask one question?

Mr. SEIBERLING. As far as I am concerned.

Mr. BRAND. I do not think you answered Mr. Seiberling's question in regard to the benefit a Federal reserve bank is to an individual bank that has no occasion to borrow money from the banks or discount any eligible paper.

Mr. NAHM. The absence of money panics, the insurance against what we had in 1873 and in 1907—

Mr. BRAND. We did not have the Federal reserve system in those days.

Mr. NAHM. No, sir.

Mr. BRAND. What benefit does a member bank which has no occasion to discount eligible paper with a Federal reserve bank receive by reason of it being a member of the system?

Mr. NAHM. The only loss that a unit bank sustains in joining the Federal reserve is the interest on its 7 per cent reserve—on the deposit that it must place with the Federal reserve bank.

Mr. BRAND. And may I interrupt you?

Mr. NAHM. Yes.

Mr. BRAND. Another character of loss is the charges on checks. It loses that, does it not?

Mr. NAHM. Yes, sir; it also has that loss.

Mr. BRAND. Now, considering those losses, when the bank has no occasion to discount paper with the bank, what benefit is this system to that class of banks?

Mr. NAHM. Well, sooner or later such bank most likely have to rediscount somewhere. It can usually, if not all the time, rediscount with the Federal reserve a little cheaper than it can with its correspondents.

Mr. BRAND. Well, suppose it has no money to borrow from its correspondent or from the Federal reserve bank either. What benefit does it get out of its being a member of the system? That was part of the question Mr. Seiberling asked.

Mr. NAHM. I would say two; first, insurance against panics; and second, a reservoir to draw from would be there if it needed it, and those are two great propositions to a man running a bank.

Mr. BRAND. That is your answer to the question?

Mr. NAHM. Yes, sir.

Mr. BRAND. Don't you think that the Federal reserve system ought to do something more than is now being done for the member banks?

Mr. NAHM. Yes, sir; I do.

Mr. BRAND. I am glad to hear you say that. Don't you think, to put it in another form, there ought to be some benefit in a monetary way to the banks, more than they have now?

Mr. NAHM. Yes, sir.

Mr. BRAND. What way would you suggest that be done?

Mr. NAHM. I would suggest that the net earnings should be redistributed so as to give a member bank from 8 to 10 per cent instead of 6 per cent on his stock.

Mr. BRAND. On his paid capital stock?

Mr. NAHM. Yes, sir.

Mr. BRAND. From 8 to 10 per cent?

Mr. NAHM. Yes, sir.

Mr. BRAND. You are the first witness who has appeared before us up to date that I have heard of, outside of Mr. Ottley, of Atlanta, who has made that concrete admission. And you are a member of the Federal reserve or on the directorate of the Federal reserve bank?

Mr. NAHM. Yes, sir; at St. Louis.

Mr. BRAND. Do you know whether or not they contemplate or are considering doing anything like that?

Mr. NAHM. No, sir; I have no knowledge of that.

Mr. LUCE. Mr. Busby, do you care to question the witness now?

Mr. BUSBY. Following up the thought that Mr. Brand was trying to make clear, a bank that is eligible for membership in the Federal reserve system receives an indirect benefit, whether it is a member or not a member of the Federal reserve system, because of the existence of the Federal reserve system, does it not?

Mr. NAHM. Yes, sir.

Mr. BUSBY. I have observed that in the agricultural field of operations the cooperative agricultural organizations benefited greatly the farmers who were not in those cooperative organizations, by reason of the fact they took off the market, in a sense, or controlled in a way, the price of those commodities through the larger method of consuming or handling element that came in contact with the different commodities; so, in the banking field, the bank that is eligible for membership in the Federal reserve system or even if it is not eligible for membership, has the same type of assurance back of its operation, that this source of relief is in existence and can be called upon by its correspondents, if not by it?

Mr. NAHM. Yes, sir.

Mr. BUSBY. And in that way it is a bulwark to the small bank as well as the State banks that are members and the national banks that are required to be members?

Mr. NAHM. Yes, sir.

Mr. BUSBY. And that is your idea of the benefits to be received by the banking fraternity, if you term it that, even though they are not members of the system?

Mr. NAHM. Yes, sir; absolutely.

Mr. BUSBY. Some one has suggested, in regard to the great number of bank failures during the last nine years, that many of those banks were organized prior to 1920 and were loaded up with types of loans

about 1920 and prior to that time, which loans they were never able to realize on or, in other words, these loans have remained in a frozen state and ultimately the banks had to go out of business when they could not realize on the old loans. What is your idea in regard to that thought?

Mr. NAHM. That is quite true, sir.

Mr. BUSBY. The suggestion has been made that few of the bank failures have come to banks organized since the deflation period was over in 1921; that the bank failures are not among recently organized banks. Have you given any thought to that question?

Mr. NAHM. I would say that that is not entirely true. I think, in the first place, there are too many banks in small places. In the second place, there are a great many small places that are shown, even by our census that is going on, where reports have been given out, to be getting smaller.

Mr. BUSBY. Yes.

Mr. NAHM. And the business is simply going away and is not there and the banks located in such territory must, necessarily, eventually close if that condition continues. Therefore, it makes no difference, Mr. Busby, whether such banks were organized before 1920 or since; it is a question of the territory being a profitable territory to operate in.

Mr. BUSBY. With automobiles and transportation facilities that bring business in contact with remote places, do you think that a branch-banking system would maintain the old status of things much better than a unit-bank system would maintain it?

Mr. NAHM. With the restrictions that I pointed out—did you hear them?

Mr. BUSBY. Yes.

Mr. NAHM. With the restrictions I pointed out, I think it would.

Mr. BUSBY. Following out the last thought on the subject, it would not be feasible for an independent bank or branch bank to try to remain in a territory that did not need either one of them, from a business standpoint?

Mr. NAHM. Absolutely.

Mr. BUSBY. And where formerly need was felt for banking activities in a community, that need has passed away, largely?

Mr. NAHM. Yes, sir.

Mr. BUSBY. In many communities?

Mr. NAHM. Yes, sir.

Mr. BUSBY. We are becoming more centered in our commercial and industrial and banking activities as well—much more so than we were a few years ago?

Mr. NAHM. Yes, sir.

Mr. BUSBY. Because of transportation, largely?

Mr. NAHM. Yes, sir.

Mr. BRAND. Do you have overdrafts in your bank?

Mr. NAHM. No, sir.

Mr. BRAND. None?

Mr. NAHM. Not in the city of Bowling Green, Ky. Please let me qualify that. We do not allow overdrafts, but in case a very good patron should accidentally, or without knowledge of his own, overdraw his account slightly, we have two ways of paying that; first, there is a small fund set aside of perhaps \$4,000, out of which, when

the cashier or president thinks it advisable, they will pay that man's check to keep him from getting into trouble and having his check protested, and immediately notify him and he comes right over and settles that. I myself have given the cashier a written instrument authorizing him to sign my note for an overdraft, if I should make one while I am away from home, so as to prevent that. With those two exceptions, we have no overdrafts.

Mr. BRAND. Do you charge any interest on overdrafts of that character?

Mr. NAHM. No, sir.

Mr. BRAND. Do you know of any banks that take care of these overdrafts, that have a policy of rule to charge interest on the overdraft during the period of the overdraft?

Mr. NAHM. I think in England that is the rule. I think they do business on an arranged overdraft basis and charge interest on them.

Mr. BRAND. Suppose I sent a check to the bank and have overdrawn \$500, and it is 10 days before I get the money to the bank to take care of it; should I not pay a reasonable rate of interest on that overdraft for that time?

Mr. NAHM. Certainly.

Mr. BRAND. Is such a charge as that made by any banks in the United States?

Mr. NAHM. Yes, sir.

Mr. BRAND. It is a proper charge, is it not?

Mr. NAHM. I think so.

Mr. BUSBY. You spoke of the idea of Mr. Pole establishing branches in certain restricted trade areas. Have you a definite notion as to a proper trade area in which those branches ought to be established?

Mr. NAHM. No sir; I have not.

Mr. BUSBY. Do you form a correct or accurate conception of what Mr. Pole means by trade areas?

Mr. NAHM. I think so. I think his idea is that such trade areas—it is a very indefinite proposition—that such trade areas are not to go beyond Federal reserve districts and to be in such territory as the ebb and flow of business of a given city exists in—ebb and flow of trade, I should say.

Mr. BUSBY. What is your conception of the effect of holding companies owning and controlling stocks in State banks, national banks, investment companies and all types of business activities, under the management of the holding company, with regard to its effect on the unit bank and on business generally; in other words, I am asking about a holding company of a very extensive nature?

Mr. NAHM. Well, I think the danger lies in their getting so big and so multimodal that the average man at the head of it will not be able to see through it all and run it. As long as you have these ideal men, who now seem to be organizing those companies, such as Mr. Giannini, Mr. Decker, and Mr. Wakefield, I do not feel any apprehension, but men die and their successors might not be able to see through it.

Mr. BUSBY. Taking into consideration the unit bank and type of credit extension that has developed our country to its present state of development, does it not seem to you that this holding company

orgy we are entering into is a little beside the spirit of the business of this Nation?

Mr. NAHM. Yes, sir.

Mr. BUSBY. Do you not think our problem is more in determining what to do regarding the holding company than it is what to do with the individual or unit bank? There are two or three angles to be considered, are there not, just now?

Mr. NAHM. I would not say that it is more, for I think that the unit bank—the small unit bank in a small town—has been your greatest sufferer and they need attention. But both are problems to be considered.

Mr. BUSBY. At the present time, does it not seem to you that legislation in regard to controlling, defining or dealing with holding companies would be just as much in order as legislation to deal with branch and chain banking? The holding companies are over the branch and chain banking in most instances?

Mr. NAHM. Yes, sir.

Mr. BUSBY. And we could not deal with branch and chain banking unless we dealt with its creator, the holding company?

Mr. NAHM. Yes, sir.

Mr. BUSBY. Now, in the great number of failures in very small communities, of many very small banks, the idea of the survival of the fittest will largely control that situation and put the men who ought not to have established banks into other lines of business, largely?

Mr. NAHM. Yes sir; but that is hard medicine.

Mr. BUSBY. I know it is.

Mr. NAHM. It should be corrected by not adding to the difficulty with too small banks with too small capital in too small territories.

Mr. BUSBY. The most effective antidote would be to require an adequate capitalization before a charter was given to them to open a bank. Would not that be the better way?

Mr. NAHM. Were you in when I read these points?

Mr. BUSBY. Yes; I heard your statement, but coming to the remedy, does it not seem that that would be the most adequate remedy and the simplest to apply?

Mr. NAHM. That is one of the remedies.

Mr. BUSBY. If all State and national banks had a requirement of \$50,000 capitalization before a charter to do business was given them, that would correct most of the evils we have from small bank failures, would it not?

Mr. NAHM. It would help, but there are other conditions just as important.

Mr. BUSBY. It would insure two things—first, more capital to protect the depositing public and it would insure a better type of management, because it would enable them to bid for better qualified men to operate the institution?

Mr. NAHM. In that sense; yes sir.

Mr. BUSBY. I will not take any more time.

Mr. LUCE. Mrs. Pratt?

Mrs. PRATT. Mr. Chairman, I regret that I was detained in a hearing before the Rules Committee and I was not here to hear Mr.

Nahm's statement, but I assume, Mr. Nahm, you are a proponent of the unit banking system?

Mr. NAHM. Yes.

Mrs. PRATT. In line with the statement you made a few minutes ago, that men die, we are dealing with theories as well as practice here?

Mr. NAHM. Yes.

Mrs. PRATT. And that would apply to the head of the unit bank as well as the head of a chain system or branch system. Would you, in theory, feel that a branch system was the only way to take care of the banking question in very small communities? Mr. Busby brought out the point just now that perhaps one remedy was the requirement of larger capital and surplus before a bank should be allowed to have a charter. Would not that cut out from the very small communities the possibility of even a small unit bank, and would not that community have to be taken care of in another way? I am talking about the small rural community that has been very much discussed here and where many bank failures have occurred?

Mr. NAHM. I think that would; yes.

Mrs. PRATT. You feel, in that case, a branch system would be the necessary system?

Mr. NAHM. May I answer that in my own way, Mrs. Pratt?

Mrs. PRATT. Yes. Perhaps the question was not well put.

Mr. NAHM. It was splendidly put. With the good roads that are being built everywhere and the opportunity of reaching, in a very short time, a center of population large enough to sustain a bank, I do not think it would be any great hardship on very small communities, if they did not have a small bank for the reason that the statistics show that such a large percentage of those banks eventually fail, carrying with them a great loss to that community, that it would be better if such communities were taken care of in their largest near-by center and therefore I, for one, would be in favor of no new banks being chartered with less capital than would make a bank that is able to go through trouble.

Mrs. PRATT. When Mr. Decker and Mr. Wakefield were here before this committee, I think I am right in stating that their purpose was to stimulate the local communities. They rather encouraged a local board and local officers, but with a possibility of their getting help from the large parent bank in the central city. Am I right in that statement?

Mr. LUCE. I so understood it.

Mrs. PRATT. Would you feel that that was a better plan, possibly, than where the parent bank would have immediate control over these smaller banks?

Mr. NAHM. Group banking is only two years old—less than that. It is rather early to answer that question. I happen to be a member of the economic policy commission of the American Bankers Association and I have been studying that and our opinion is that so far, we are not prepared to express a definite opinion on that subject; we would rather see it work out awhile.

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

Mr. LUCE. To make it clear that we understand just what your proposal is, in regard to a limit, am I correct in taking it that your proposal is that branches might well be established in places of less

than 10,000 inhabitants by parent banks in places of more than 10,000 inhabitants and that you are not prepared to approve branches of banks in places of more than 10,000 inhabitants?

Mr. NAHM. Yes, sir.

Mr. LUCE. Branches of parent banks in other larger places in that same area?

Mr. NAHM. Yes, sir:

Mr. LUCE. Mr. Dunbar, have any questions occurred to you since you yielded to Mr. Busby?

Mr. DUNBAR. You stated the Federal reserve system, in your opinion should pay member banks from 8 to 10 per cent on their stock?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Governor Young was here and also Mr. Pole, to give expression to thought along that line. Would it not be better to maintain the 6 per cent interest on the stock and give the member banks interest on their daily deposits?

Mr. NAHM. The earnings of the Federal reserve are not such as to make that possible.

Mr. DUNBAR. Judge Brand, in his speech the other day showed you diverted a great deal of your earnings to the purpose of buying increased stock in the Federal reserve system. If that is so, why could not that be used? Why should they be doing that?

Mr. NAHM. I do not understand that question.

Mr. DUNBAR. Sir?

Mr. NAHM. I do not understand that question.

Mr. DUNBAR. A branch member of the Federal reserve bank wishes to purchase more stock in the Federal reserve system and they do it and use their earnings to pay for the stock.

Mr. NAHM. A branch Federal reserve bank?

Mr. DUNBAR. Yes. You are a member of the St. Louis Branch?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Have you any stock in the Federal reserve system?

Mr. NAHM. An individual can not own stock.

Mr. DUNBAR. I mean your bank?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Suppose you wanted to increase the amount of that stock?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Could you not do that?

Mr. NAHM. Yes, sir, by having more capital or more surplus.

Mr. DUNBAR. And then you use your money from your earnings to buy that additional stock—is that not correct?

Mr. NAHM. Yes, sir.

Mr. DUNBAR. Why can not that money be used to pay interest on daily deposits?

Mr. NAHM. There is not enough of it.

Mr. DUNBAR. How much money has been diverted each year on an average for the last five years, by the various banks in America?

Mr. NAHM. I do not know.

Mr. DUNBAR. How much are your deposits in the Federal reserve system?

Mr. NAHM. The reserve is \$2,300,000,000.

Mr. DUNBAR. That represents 7 per cent on one kind of deposits and 3 per cent on another, does it not?

Mr. NAHM. Yes, sir; but that is an accumulation since the organization of the Federal reserve, since 1914.

Mr. DUNBAR. Then you say it would not be possible to pay 6 per cent?

Mr. NAHM. I think your testimony here, given either by Mr. Pole or by Governor Young, shows that there is about 1½ per cent on deposit earned.

Mr. DUNBAR. Yes.

Mr. NAHM. That would be immaterial to the small bank.

Mr. DUNBAR. I do not think it would be immaterial because of the complaints I have heard about it.

Mr. NAHM. I know that.

Mr. DUNBAR. Why would it not be a good thing to pay 1 per cent on deposits?

Mr. NAHM. May I answer that in my own way?

Mr. DUNBAR. Of course.

Mr. NAHM. Last year, in the Federal reserve bank in St. Louis, which has a paid in capital of \$5,000,000 and a surplus of \$10,000,000, making \$15,000,000 in all, the city of Louisville, alone, owed the Federal reserve at one time \$29,000,000. Now, what, in my opinion the Federal reserve banks need, since, for the future they must bank for America and, almost, I might say, for the world, is a larger surplus, so that they can accommodate the various cities in the United States in times of stress.

Mr. DUNBAR. Of course I am in favor of the Federal reserve system, but what I am interested in is trying to make the Federal reserve system more popular, so that we may have in it a greater number of banks who own stocks. Now, I think that if you can pay 1 per cent interest on the daily balances—and you thought that was nothing—I believe if you would pay 1 per cent interest, they would feel like they were getting something.

Mr. NAHM. I did not hear that last.

Mr. DUNBAR. If you could pay 1 per cent interest, they would feel that they were getting something and it would appease them to a large extent. Everywhere you go in the country they have an objection to the Federal reserve system because they do not get interest on daily deposits. I believe it would be better to give them 2 per cent on daily deposits than give them 5 per cent on their stock. That is just an opinion. You do not think so?

Mr. NAHM. No, sir.

Mr. DUNBAR. I just want to tell you one thing: The banks all over my section of the country are cursing the Federal reserve system because they do not get interest on daily deposits. I think we should work out a plan of that kind rather than increase dividends and pay them 8 or 10 per cent on their stock.

Another thing: I am favorable to the unit banking system and I deplore the obstacles which present themselves to it. How is the Federal Government going to regulate that, when the State governments have a right to grant branch banking?

Mr. NAHM. It is very difficult for the Federal Government to reach that proposition.

Mr. DUNBAR. It is almost impossible to reach it?

Mr. NAHM. The American Bankers Association have brought about some uniform legislation throughout the 48 States and would

be of great assistance to that, but a large part of the trouble is in the States.

Mr. DUNBAR. Do you not think there is so much trouble in the States, it looks like we will not be able to do very much in controlling the banking situation except so far as we have an influence through the Federal reserve system?

Mr. NAHM. I would not say that.

Mr. DUNBAR. Well, what is your opinion?

Mr. NAHM. I would say, under the restrictions I have named, Mr. Pole's proposition would be of help.

Mr. DUNBAR. What was his proposition that does not interfere with the States?

Mr. NAHM. To allow branches in trade areas.

Mr. DUNBAR. I know, but that would interfere with the States.

Mr. NAHM. Yes; it would. That is true, Mr. Dunbar. I first wrote, among the restrictions that I put here, that there should be no branches in the 22 States that themselves forbid branches.

Mr. BUSBY. Twenty-eight, is it not?

Mr. NAHM. No, sir, 22. There are 7 that have no legislation; 22 prohibit it. But I scratched that out, under this idea. The States can meet that, if they choose, by passing laws, allowing branches. Secondly, all of those 22 States have branches or chains or groups now except 6, in the way of holding companies which defeat their laws.

Mr. DUNBAR. That is what I have observed, and I think the practice is going to grow.

Mr. NAHM. It is growing.

Mr. DUNBAR. It may be impossible to work out a plan and possibly it would be unwise to do it, but I think you can get at the problem by paying interest on daily deposits that would help the Federal reserve system more than anything I know of.

Mr. LUCE. Mr. Seiberling, have you any further questions?

Mr. SEIBERLING. I have just a few more questions. Our whole purpose should be to arrange a system, I take it, to furnish banking facilities, as far as possible, to remote parts of the country—to agriculture and to everybody that has occasion to use banking facilities. Do you agree with that—as far as possible, I say?

Mr. NAHM. As far as possible; yes sir.

Mr. SEIBERLING. I take it that you have a very profitable banking institution with which you are connected?

Mr. NAHM. Fairly so.

Mr. SEIBERLING. How long have you been organized?

Mr. NAHM. Since 1901.

Mr. SEIBERLING. I take it you have increased your surplus and undivided profits each year?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And you paid substantial dividends on your stock?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And your stock has a good market price?

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. Now, in the face of all that—and the reason I am asking this question again is because you start your statement by saying "Banking is a business, the people's business"—

Mr. NAHM. Yes, sir.

Mr. SEIBERLING. And on page 4, at the bottom of the page, you say:

Then banks should charge for unprofitable services and recoup their lost profits by proper service charges on unprofitable accounts.

In view of what you said about increasing your surplus and paying good dividends and further, that banking facilities should be furnished to remote parts of the country, as far as possible, so that everybody could enjoy banking facilities, you still think that a service charge is proper where that service charge automatically, of necessity, deprives some people in your community of banking facilities?

Mr. NAHM. May I answer that in my own way?

Mr. SEIBERLING. Certainly.

Mr. NAHM. Yes sir; I do. With a large number of small banks, it is a fight for existence.

Mr. SEIBERLING. Yes; but you are making a lot of money and your bank is prosperous.

Mr. NAHM. That particular bank is prosperous.

Mr. SEIBERLING. Why should you do it?

Mr. NAHM. But 71 per cent of the banks with capital of less than \$50,000 are broke. Now, they have got to get back somehow or other, in a legitimate way, what they have lost.

Mr. SEIBERLING. But if this is the people's business, then why should you adopt a policy which deprives a lot of people of the facilities of banking?

Mr. NAHM. Because the greatest blow to the people's business is a broke in a community and that is the thing you want to avoid and you can only avoid it by allowing banks to charge for unprofitable business, just as a department store charges for everything they sell except the wrapping paper and twine.

Mr. SEIBERLING. The gas company that furnishes gas to the people in a community has a great number of accounts they do not make any money on, have they not—small accounts where they only get—

Mr. NAHM. Yes, sir and they put on a service charge.

Mr. SEIBERLING. Well, a street railroad company carries some people for a short haul and makes money on them and carries other people for a long haul and does not make any money on them. Is not that correct?

Mr. NAHM. Yes sir, but a great many street railroads in the United States are broke.

Mr. SEIBERLING. Well, do power companies make a charge where the monthly fee is below a certain amount?

Mr. NAHM. Yes, sir; a service charge.

Mr. SEIBERLING. Everywhere in the country?

Mr. NAHM. Those that I know of do. We are granting a franchise right now in our city which embraces a service charge.

Mr. SEIBERLING. You still think that a prosperous bank that is increasing its surplus and paying good substantial dividends to its stockholders and its stock is selling at a good high price, that has made money for 10 years, should take action which they know will, of necessity, deprive some people of the privilege of banking facilities in its bank?

Mr. NAHM. The general rules apply to banks not so prosperous who are fighting for existence.

Mr. SEIBERLING. You are doing this to protect the other banks in your community?

Mr. NAHM. Doing it because, in the first place, people do not value service they get for nothing. They only realize the value of it when they pay for it and that very service charge may mean the absolute existence of some of the banks.

Mr. SEIBERLING. Is it not worth something to a bank to train people in the community to methods of doing banking business and get them accustomed to coming to the bank?

Mr. NAHM. That is the purpose of the service charge.

Mr. SEIBERLING. Is not that worth something to the bank?

Mr. NAHM. Naturally.

Mr. SEIBERLING. Do not the small depositors become large depositors after awhile?

Mr. NAHM. Yes, sir; and you can help them with the service charge.

Mr. SEIBERLING. You think so?

Mr. NAHM. Yes, sir; absolutely.

Mr. BUSBY. In my district we have no town of 5,000 people. It embraces more than 5,200 square miles. What would you say in regard to our securing banking facilities under your idea of a parent bank in a town of 10,000 people or more with branches in smaller places?

Mr. NAHM. May I ask a question?

Mr. BUSBY. Yes.

Mr. NAHM. Have you any successful bankers in that district?

Mr. BUSBY. We have only had 34 bank failures in the entire State in the last 10 years. We declare as much as 33 per cent dividends in towns of 1,500 inhabitants.

Mr. NAHM. Those people are very high-class bankers, and I should hope that nothing would occur to discontinue that service to your community.

Mr. BUSBY. But that seems to run so counter to the theories of you larger bankers, that I am getting uneasy about the folks down home and I want to break the sad news to them.

Mr. NAHM. My fear has been in regard to new banks and I think no new banks should be chartered, but it is not ex post facto and would not affect the people you are talking about.

Mr. BUSBY. Do you not think your theories and the theories of these other extensive banking institutions would apply more to a section where you had very large cities, where you had suburbs of four, five, six, seven, or eight thousand people, rather than a section like mine, where the larger towns are not more than four or five thousand inhabitants?

Mr. NAHM. I would think that even in your towns that banks that are now being run profitably with a smaller capital, would better protect your people if they had \$50,000 capital. It might mean some consolidations and mergers, but I believe, in the end, it would protect your people better.

Mr. BUSBY. You might be right in some respects. What is true of banks, however, as I see it, is true of merchants, that the little fellows are not so well prepared to compete, in a business way, with the big institutions.

Mr. NAHM. That is true.

Mr. BUSBY. And they ought to go out of business if your theory is correct, in order to bring about a more efficient unit management of that type of business?

Mr. NAHM. Well—

Mr. BUSBY. But following all of that, I am wondering what is going to become of the small merchants and bankers and small operators in every way—what they are going to do.

Mr. NAHM. For a living?

Mr. BUSBY. Yes; and I think it is beginning to bother them, too.

Mr. NAHM. That is one of the emergencies of life. We wondered what would become of the saloon keeper when the eighteenth amendment was passed.

Mr. BUSBY. I never did bother about him. I knew he would be better off when he got in some productive business.

Mr. NAHM. Well, the same thing occurred when the women bobbed their hair and stopped using hair nets.

Mr. BUSBY. I think perhaps we are getting away from the subject.

Mr. NAHM. Nothing I have said goes to put your successful banker out of business, no matter how small his capital. I am only looking towards the future in saying that new banks should not be chartered with a less capital than—

Mr. BUSBY. But when I listen to all these statements, I look back to my district and I see not a single town or city in it large enough to have a bank and I seriously question the theories expounded by you experts.

Mr. NAHM. You have a bank in most places?

Mr. BUSBY. Yes.

Mr. NAHM. If it is successful, I hope that nothing I have said would put it out of business.

Mr. BUSBY. Really, I do not think it will, but it condemns the theory so strongly that I can not be impressed much with the idea you gentlemen present here, which is gathered solely from the larger center viewpoint.

Mr. NAHM. No, sir; I know of a bank with \$15,000 capital and \$50,000 surplus that has over a million depositors.

Mr. BUSBY. Yes.

Mr. NAHM. What security have those depositors in the way of capital and surplus to protect them in case of trouble?

Mr. BUSBY. Well, of course, I do not know the surrounding facts and can not answer.

Mr. NAHM. There are a great many just such cases. The proper relation, it is said, is 10 to 1, but I am simply talking about the future and not the past.

Mr. BUSBY. Different types of territory demand different types of banking.

Mr. NAHM. That is quite true.

Mr. BUSBY. Still our bankers in Mississippi, in the smaller towns, know their business and know their field for business and know their methods of operating and can operate successfully and pay overhead and salaries and from 10 to 30 per cent dividends, yet they might not be able to do the same thing in New York or in another territory.

Mr. NAHM. I would not put them out of business at all with even the plan I have suggested here.

Mr. BUSBY. So, when it comes to expounding a banking theory, you have to know what sort of field you have to expound it in, in order to have it stand up in all lines.

Mr. NAHM. Yes, sir.

Mr. LUCE. I will adjourn the meeting with the statement that the witness invited to appear before the committee to-morrow, has asked to be excused and there will be no meeting to-morrow.

Mr. E. B. Green has been asked to appear before the committee Tuesday morning, at 10.30, and Mr. Robert Fleming, president of the Riggs National Bank, will be before the committee next Tuesday at 2.30 o'clock.

(Whereupon, at 12.35 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m., Tuesday, May 27, 1930.)

