Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

SECOND SESSION

UNDER

H. Res. 141

AUTHORIZING THE BANKING AND CURRENCY COMMITTEE
TO STUDY AND INVESTIGATE GROUP, CHAIN,
AND BRANCH BANKING

MAY 27 AND 28, 1930

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CONTENTS

BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, MAY 27, 1930

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

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

The Chairman. The committee will come to order. There is present this morning, Mr. E. B. Greene, chairman of the executive committee of the Cleveland Trust Co., of Cleveland, Ohio, who will make a statement to the committee.

Proceed, Mr. Greene, in your own way and tell us the situation with respect to branch, chain, and group banking as you have found it.

STATEMENT OF E. B. GREENE, CHAIRMAN OF THE EXECUTIVE COMMITTEE OF THE CLEVELAND TRUST CO., CLEVELAND, OHIO

Mr. Greene. Mr. Chairman, and members of the committee, I think the bankers of the country who know of the study which you are making, are exceedingly pleased, because they feel confident that out of your work and observations, will come some legislation that will be a big help in the situation in which the banking business finds itself at the present time.

I was glad to accept the invitation to come here for two reasons; first, thinking the committee would be interested in the experience of a bank that has been a pioneer in the branch banking business. We have been operating branches for nearly 30 years. Those are not all city branches, and therefore we have had experience with branches located in the city limits and in the suburbs and contiguous territory; also with branches located outside of even the contiguous territory. Our branches located farthest from the city are separated by 58 miles in a straight line. So, we cover a larger territory, perhaps, than branch banking is ordinarily done in, in the north central part of the country.

The second reason is I am glad to appear before this committee because I should like an opportunity to express our view of the comparative merits of branch banking as compared with group and chain banking.

Possibly the best way to show our situation would be to make a short statement regarding the method used by the Cleveland Trust Co. in acquiring branches and in operating those branches as a branch banking system.

The Cleveland Trust Co. acquired its first branch late in 1902, but previous to that time the Garfield Savings Bank, which has since been acquired by the Cleveland Trust Co., established a branch in 1901.

Strangely enough, the first branch bank established in our part of the country was a downtown office owned by a suburban bank.

Having adopted the policy of branch banking, the Cleveland Trust Co. proceeded vigorously to acquire branches as far as opportunity presented itself; some by merger, some by purchase of stock and others by buying the assets. The list I have before me shows the name and date of acquiring of the 57 branches of our bank now being operated.

I hardly think you will be interested in my reading that complete list.

The CHAIRMAN. Without objection it will be inserted in the record at this point.

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

Windermere office, acquired, January 1, 1903.
Euclid, Fifty-seventh, acquired October 1, 1903.
St. Clair, Fortieth, acquired October 1, 1903.
Perry, acquired January 11, 1904.
Bedford, acquired January 4, 1904.
Newburgh, acquired January 29, 1910.
Euclid, One hundred and fifth, acquired December 27, 1904.
Collinwood, acquired December 27, 1904.
Willoughby, acquired December 27, 1904.
Lorain, acquired May 15, 1905.
Lakewood, acquired May 15, 1905.
Denison, Twenty-fifth, established April 23, 1906.
Liberty, established April 10, 1906.
Paineseville, acquired July 1, 1906.
West End, established October 2, 1916.
Kinsman, Ninety-third, established September 6, 1919.
Waterloo, established January 2, 1920.
Peoples, acquired October 24, 1919.
Edgewater acquired October 24, 1919.
Lorain Clark, acquired October 24, 1919.
Lorain, Sixty-fifth, established May 17, 1920.
Hough, acquired March 29, 1920.
Mayfield Lee, established July 12, 1920.
Lorain, One hundred and seventeenth, established November 1, 1920.
West Park, acquired June 26, 1920.
Forest City, acquired August 27, 1920.
South Side, established December 1, 1920.
South Brooklyn, established January 2, 1921.
London Road, established March 1, 1921.
Fulton Road, established April 2, 1921.
East Fifty-fifth and Payne, established August 1, 1921.
Nela Park, established June 7, 1921.
St. Clair, Fifty-fifth, merged February 11, 1922.
Kinsman Lee, established March 20, 1926.
Addison Road, merged February 11, 1922.
St. Clair, One hundred and twenty-fifth, merged February 11, 1922.
Superior, One hundred and twenty-third, merged, February 11, 1922.
Euclid Ivanhoe, merged February 11, 1922.
Euclid, Seventy-ninth, merged February 11, 1922.
Union, Ninety-third, merged February 11, 1922.
Madison Heights, established August 4, 1924.
Euclid Mayfield, merged February 11, 1922.
Superior One hundred and fifth, merged February 11, 1922.
Gordon Park, merged February 11, 1922.
Glenville, merged February 11, 1922.

Hayden, merged February 11, 1922.
Buckeye, One hundred and sixteenth, merged February 11, 1922.
Madison, Ninty-seventh, established December 1, 1922.
Madison, One hundred and twenty-fourth, established January 2, 1923.
Woodland, Fifty-fifth, established April 3, 1925.
Miles, One hundred and thirty-third, established May 1, 1923.
Cedar Lee, established July 2, 1923.
Terminal, established November 1, 1929.
Pearl Street, merged October 26, 1929.
Clark, Fiftieth, merged October 26, 1929.
Broadview, merged October 26, 1929.
Lorain Triskett, merged October 26, 1929.

Mr. GREENE. These branches are located as follows: Forty-eight offices in the city of Cleveland; eight offices in municipalities contiguous to the city of Cleveland; and four offices located in outlying territory.

In explanation of the last two items, I would state that all offices located outside of the city of Cleveland were established prior to the restriction in the Federal reserve regulations and that the four offices outside of contiguous territory were established prior to the enactment of the present Ohio banking code. That was enacted in 1908 and became enforceable in 1910. These outside branches were in operation many years before that.

I have a table before me showing the growth of the bank in the number of accounts and deposits, indicating that pioneering in the branch-bank field met with general approval and confidence.

Again, I do not think you care are to have me read the complete figures of this larger table.

The CHAIRMAN. Without objection that table will be inserted in the record at this point.

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

The Cleveland Trust Co., incorporated September 19, 1894—Yearly growth in deposits and accounts from 1895 to 1929

Date	Total accounts	Commercial deposits	Savings deposits	Total deposits
Year ending Dec. 31:				
1895	637			$430, 581
1896	1, 736			995, 753
1897	3, 052	$516, 555	$2, 003, 343	2, 609, 758
1898	3, 101	536, 498	2, 967, 016	3, 687, 706
1899	4, 059	662, 619	2, 680, 639	3, 869, 536
1900	5, 799	1, 709, 168	3, 870, 381	6, 435, 360
1901	8, 442	1, 903, 597	4, 856, 321	8, 022, 153
1902	9, 515	2, 272, 182	5, 200, 823	8, 532, 262
1903	19, 692	3, 063, 693	7, 664, 799	[1] 13, 537, 881
1904	40, 234	5, 661, 195	12, 258, 441	[2] 21, 043, 992
1905	52, 812	6, 036, 262	15, 413, 026	[3] 25, 419, 955
1906	65, 494	6, 060, 835	16, 185, 132	[4] 24, 624, 149
1907	72, 538	4, 758, 196	15, 627, 782	22, 483, 994
1908	70, 513	3, 928, 559	12, 410, 819	21, 182, 654
1909	72, 775	5, 385, 571	14, 361, 393	24, 507, 192
1910	78, 960	5, 014, 338	15, 343, 383	[5] 24, 598, 924
911	84, 098	5, 696, 836	17, 447, 050	28, 081, 307
1912	90, 271	6, 315, 118	18, 487, 170	29, 486, 833
1913	98, 484	6, 110, 672	19, 559, 960	30, 131, 159
1914	105, 051	7, 442, 607	19, 952, 474	32, 007, 361
1915	112, 816	10, 213, 405	22, 600, 612	43, 332, 503
1916	129, 803	13, 910, 227	31, 035, 107	55, 308, 805

[1] Windermere office acquired; Euclid, fifty-seventh, acquired; St. Clair, fortieth, acquired.
[2] Perry office acquired; Bedford office acquired; Wade Park, Collinwood, and Willoughby offices acquired.
[3] Lorain office acquired; Lakewood office acquired.
[4] Paineseville acquired.
[5] Newburgh acquired.

The Cleveland Trust Co., incorporated September 19, 1894—Yearly growth in deposits and accounts from 1895 to 1929—Continued

Date	Total accounts	Commercial deposits	Savings deposits	Total deposits
1917	141, 254	$15, 599, 300	$29, 530, 159	$57, 765, 589
1918	154, 357	18, 158, 338	30, 424, 459	56, 517, 598
1919	192, 483	23, 513, 670	44, 874, 234	[6] 84, 617, 245
1920	233, 808	30, 146, 468	59, 574, 217	[7] 103, 346, 055
1921	238, 054	27, 148, 497	55, 798, 564	103, 085, 037
1922	386, 745	38, 475, 470	92, 301, 927	[8] 155, 333, 679
1923	401, 762	44, 101, 327	106, 977, 798	178, 813, 603
1924	416, 076	43, 288, 117	114, 019, 447	189, 351, 861
1925	432, 579	47, 331, 550	121, 190, 749	201, 820, 361
1926	438, 376	48, 332, 084	128, 255, 115	205, 201, 083
1927	444, 712	50, 800, 588	135, 769, 167	217, 660, 835
1928	452, 533	57, 650, 460	146, 418, 818	242, 549, 835
1929	537, 232	84, 654, 303	169, 957, 190	[9] 298, 227, 820

[6] Peoples, Edgewater, and Lorain-Clark offices acquired.
[7] Hough office acquired; West Park acquired; Forest City acquired.
[8] St. Clair (fifty-fifth), Addison, St. Clair (one hundred and twenty-fifth), Superior (one hundred and twenty-third), Euclid, Ivanhoe, Euclid (seventy-ninth) and Union (ninety-third), offices acquired in merger with the Lake Shore Banking & Trust Co. Euclid Mayfield, Superior (one hundred and fifth), Gordon Park, Glenville, Hayden, and Buckeye offices acquired in merger with the Garfield Savings Bank.
[9] Pearl Street, Clark (fiftieth), Broadview, and Lorain Triskett offices acquired in merger with the Pearl Street Savings & Trust Co.

Mr. Greene. I should like to say that when we organized in 1895 the deposits, at the close of the first year, were $430,000; at the close of the year 1929 the Cleveland Trust Co. had 537,232 depositors, with total deposits of $298,227,820.

Two principles governed its policy in opening branches—never to invade the territory of a smaller bank and not to establish a branch if an existing institution could be acquired. In fact, the bank did not establish a de novo branch until 1907. As a result of a policy of forbearance toward the smaller banks, these institutions were kindly disposed toward the Cleveland Trust Co., and we were oftentimes given the opportunity of acquiring them later on.

Without fear of contradiction, I can state that our bank has never been accused but in one instance of having invaded the territory of a smaller bank, and in that particular case we placed our branch in a location which we did not consider an invasion of their territory. Since our principal competitors entered the branch-banking business this has not held true. So much for the policy which has governed concerning the establishment of branches.

Regarding the handling of the routine of branches, our board of directors has been increased from time to time to make room for directors formerly connected with banks which we have acquired. In this way they have not been eliminated from the banking business, but have exercised their authority in a broader field.

We might consider the making of loans under subdivisions of discounts, collateral, and real estate. Every manager of our 57 branches has authority to grant discount loans in varying amounts, depending entirely upon the manager's ability and experience, the authority ranging from $250 to $5,000.

As regards collateral loans, every branch office is furnished with an approved list of collateral loan rates and lines enabling it to take care of customers promptly in case they can offer any of the securities included in these lists. These collateral loaning rates and lines are established by a committee of board, offices and managers who revise the rates from time to time and reestablish them every six months.

Managers of all branches take real estate loan applications, which are forwarded at once to the Appraisal Bureau at the main office. They are then brought up at a meeting of the branch managers at which the manager who took the application may present his comments and reasons for desiring to make the loan. If approved at this managers' meeting, they are forwarded for final approval of the board.

I might add that for years the Cleveland Trust Co. has granted more loans than any institution in northern Ohio. I think I could, without fear of contradiction, say that that covers the State of Ohio because, of course, Cleveland is the largest city by far in Ohio.

It is our firm belief that taking care of the application of the small borrower is our greatest aid in building up our branches. This statement can be made regarding the other classes of loans besides real estate.

In regard to the supervision of branches, this important duty is placed in the hands of a department of branches under the control of a vice president. General management figures are forwarded daily from each branch to this department and these figures are assembled into a consolidated statement by 10 o'clock the following morning. Reports on all subjects are rendered the main office. A close system of branch inspection, entirely separate from audit, is also maintained by the branch management department. It is our purpose to give our managers every opportunity of handling the business of branches with the same facility and the same knowledge as if they were serving at the main office. In fact our branch managers have no more trouble consulting the various officers and department heads of the bank than the junior officers themselves in our main office which occupies four adjoining buildings in the downtown financial center. Our system not only gives them very desirable experience and knowledge, but it also permits them to speak on behalf of the lines of credit and loans which originate in their territory.

I am bringing that up to show the personal contact of the managers with the business. It is sometimes thought branch banking means impersonal service for the borrower. That is not true, at least in our case, and it can be obviated in every case by giving the men who request loans an opportunity to present their views and their ideas respecting the loans requested.

In order to familarize our branch managers with the work of the banks, certain ones of them are always present at the meetings of our committees. I mean the main meetings at which the executive officers of the bank handle the business of the bank.

As to the audit, the audit department maintains special auditors at large branches, and all other branches are visited at frequent intervals by traveling auditors. Copies of all branch loan records are maintained by this department and all movements of cash or collateral are recorded here.

The department is operated entirely free and independently from all other departments, and is responsible solely and directly to the board.

The early criticism of branch banks was that it was dangerous as it permitted of the withdrawing of funds at too many paying windows. With the growth of banks to their present size, this criticism loses all its force as the payment of money over the teller's window can not reach proportions to embarrass big city banks. Their withdrawals through clearance are of much greater importance and, of course, the Federal reserve system affords security which has done away with the fear of runs.

A criticism harder to refute is that branch banks established in small communities are glad to receive the deposits but are unable or unwilling to take care of the loans of those particular communities. This criticism, in our opinion, is unfounded. Such a policy would be extremely detrimental to the growth of the branches of such a bank. Self-interest prevents any well-managed bank adopting such a policy. The following figures representing the deposits and laons of the branches of the Cleveland Trust Co. most remote from the main office, prove conclusively that the Cleveland Trust Co. is placing at the disposal of its remotest branches loanable funds way beyond their deposits.

Mr. SEIBERLING. Will you read those figures? They are short, are they not?

Mr. GREENE. Yes. I was going to comment on them, but I will read the figures in full. This is as of May 22, just a few days ago.

The total deposits of the Willoughby branch, were $1,955,259.77; the total loans, $2,890,305.90; the borrowing from the main office was $938,976.70, showing that they were loaning approximately 50 per cent more than the total deposits.

I made no attempt to select branches which would make any particular showing. I simply telegraphed Sunday afternoon to bring me those figures and these are the figures supplied. I said, "Give me the figures of the three branches farthest away, as to deposits and loans."

The Lorain branch, which is 30 miles from the center of Cleveland had total deposits of $3,510,329.67; total loans of $5,465,617.54; borrowing from main office $1,973,498.52, showing that they were loaning approximately 65 per cent more than total deposits.

The branch at Painesville had total deposits of $3,224,344.33 total loans of $3,965,243.45; borrowing from main office, $762,041.34, showing loans of approximately 25 per cent more than total deposits.

It is our experience that when a branch bank fails to grant loans and credit which the depositor is justified in requesting, that it builds up the business of its competitor and in case it is the only bank, it brings about the organization of a new institution. No well-managed branch bank neglects the reasonable needs of the locality in which its branches are located.

I should like to lay special emphasis on our experience in that regard. There seems to be in the minds of those who are opposed to branch banking the idea that a branch is put in—especially in a small locality—with the idea of accepting and then withdrawing deposits and then telling the people their loans are not up to standard. If you establish a branch in a locality, you are expecting to get their business and good will, and if you start a policy of that kind, it simply means that you will not get their good will. Banks are founded on good will and unless their service corresponds to the desires and needs of the locality in which they are established, they do not get the good will, and without the good will you have very little in the banking business.

To-day there are but 16 banks of all kinds serving Cleveland and its suburbs with a population of possibly 1,250,000 people. I mean by that the metropolitan district in the narrower sense. I do not mean by going outside of Cleveland. I mean Cleveland proper, plus the municipalities immediately connected with it and into which you pass from Cleveland without realizing that you are outside of Cleveland.

Mr. LETTS. You mean 16 banks and branches?

Mr. GREENE. No, sir; 16 banks. That will be explained. That is the total number of corporations.

Mr. LETTS. I see.

Mr. GREENE. Ten years ago they were double that number, or 35 banks. Twenty years ago there were 34 banks and in 1900, or 30 years ago, there were 53 banks. The writer firmly believes that the 16 banks with their hundred or more branches are affording all classes of depositors, rich and poor, better service than the 53 banks served Cleveland 30 years ago when the population was possibly one-third what is to-day. Furthermore, that during the last decade when banking has been largely in the big institutions with branches, there has been but one loss to stockholders, that of 15 per cent, and no loss to depositors. In the decade from 1900 to 1910, however, there were 15 losses to stockholders of from 15 per cent to 100 per cent; seven total losses to stockholders and five losses to depositors, one of which was a loss to depositors of 80 per cent. This improvement in the solvency of banks is due in large measure to branches of strong well established banks taking the place of the small-unit bank scattered throughout the city. The attached table gives in detail these figures.

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

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

Number of banks in business end of 1900	53
Number of banks added during decade to Dec. 31, 1909	29
Number of banks discontinued during decade to Dec. 31, 1909	48
Number resulting in losses to stockholders (5 to 100 per cent)	15
Number resulting in total loss to stockholders	7
Number resulting in losses to depositors (19 to 80 per cent)	5
Number of banks in business Dec. 31, 1909	34
Number of banks in business Jan. 1, 1910	34
Number of banks added during decade to Dec. 31, 1919	8
Number of banks discontinued during decade to Dec. 31, 1919	7
Number resulting in losses to stockholders	1
Number resulting in total loss to stockholders	1
Number resulting in losses to depositors (70 per cent)	1
Number of banks in business Dec. 31, 1919	35
Number of banks in business Jan. 1, 1920	35
Number of banks added Jan. 1, 1920 to date	13
Number of banks discontinued Jan. 1, 1920 to date	32
Number resulting in losses to stockholders (15 per cent)	1
Number in business to-day	16

Mr. GREENE. There are a few further comments I should like to make on branch banking.

It has been our experience that our branches have grown at a faster rate than our main office. It is a little hard to determine just the basis for that statement or to give convincing figures. But I would say that maybe 20 years ago our ratio would have been 75 per cent at the main office and 25 per cent at the branches. To-day it would be possibly 30 per cent for the main office and 70 per cent for the branches.

Undoubtedly that change is due to several causes. The two main factors are convenience to the depositor and the desire to bank nearest the home or place of business, and that desire is augmented by the congestion which exists in all big cities.

In taking over branches, we found a great deal of desire on the part of neighborhood banks to be absorbed. They had probably been useful in the very beginning in helping to sell real estate and in building up the little community. When it was built up, they felt their duty was done and were glad to have the business carried on and a continued banking service located in their community; so they were entirely willing to have a big bank come in and take over the business.

I have never found any great desire on the part of a bank, provided you paid them a fair price and provided you were in a position to afford their community or locality and their depositors the right kind of service, to object to be acquired by a bank. It has in every case been entirely a friendly negotiation between two parties, feeling they both got an advantage out of the transaction. I am saying that because I think there is, in certain parts of the country, the thought that the big bank in acquiring branches uses its power to acquire smaller banks through threats. As I say, if that has been done, it has not been done by us or by any institutions in our territory. When you do that, you destroy the good will and the purchase, no matter what you paid for it, in my opinion is a poor one.

I think that local representation on the board, where the board of a smaller bank contains men who are familiar with large financial transactions and who qualify for big city banks is distinctly helpful to the bank, and of course makes this matter easier.

I have spoken about the good will of a bank. I have personally carried on a great many of these transactions, as I was assigned to that duty of endeavoring to increase our branch banks for a number of years, by our late president, Mr. Goff, and I know, from the very beginning of every one of those negotiations, the question of buying with the assets, the good will, was regarded as essential, and I know, from personal knowledge, in the beginning of those operations, that statement was made, that unless the good will of the stockholders and the board of that bank went with the purchase, it was not wanted. If they felt there was any compulsion or threat in it, we asked them to state it and the negotiations would be discontinued, because we would not want the purchase under those conditions.

Possibly the committee would be interested in the basis on which we used to figure a smaller bank would be worth to a larger institution desiring to operate that bank, if acquired as a branch.

In every case we made our own appraisal of their assets, and you can readily imagine that unless we are regarded in a friendly light and with the utmost confidence, they would not have opened their books to us, as they invariably did. We used to figure to give them credit, if they had, we will say, unusually good earnings; we used to take into consideration, in the case of any premium paid, the cost to us of acquiring new business. You can see how foolish it is for a bank to spend hundreds of thousands of dollars in its advertising and in its new accounts department, and then in service that they render in one way or another, and which they more or less charge to good will—the effort to build up their business all the time—and then turn around and adopt policies that will drive away good business. A bank does not do that.

I am speaking of this because I have read a great deal of the testimony before this committee and I find there is, in the minds of many people, the idea that banks do not consider good will. That is not the case. Good will is as essential to them, or more essential, than to any other lines of business that I have knowledge of.

As I say, they figure that in the acquirement of a bank. The alternative is the cost of acquiring a like amount of new business.

That can be acquired in two ways: You can establish a new branch in another district and figure until you reach a certain point, the establishment of that branch will cost so much money, or you can buy an existing institution, and that premium you pay will have a direct relation to the cost of building up new business corresponding to that of the acquired bank.

Another factor we consider is whether the location has especially good opportunity for future growth; in other words, we acquire a bank not so much for what it has done in the way of earnings in the past, but for what it will do in the future as a branch under our management.

I would like to say further something about the feeling of a small community where we have established a branch. I think it was in 1904 or 1905 that we acquired a branch in the city of Lorain. As some of you may know, Lorain is a mill town, located about 30 miles from Cleveland. I will give you the population of that town in a moment. The banks already located there of course made the most of our big bank coming into their community. That was 25 years ago, when branch banking was not as well known as now. As a result of that criticism, and as a result of our policy of conservative banking, we lost about 30 or 40 per cent of our accounts. When we took that bank over 20 years ago, it had about $300,000 in deposits. It went down about 30 per cent.

Gradually they saw we wanted to accommodate our customers and the growth of the bank has been steady and we have now in excess of $3,500,000 in that branch. Our manager is chairman of the clearing house committee and is on the friendliest terms with all the other banks. Three years ago Lorain was struck with a cyclone. I doubt if a bank in Lorain failed to come to us and say how pleased they were to know that the Cleveland Trust Co. had a branch in that city. They were pleased to know that a strong bank like the Cleveland Trust Co. was located there and enabled to lend money to the city. We made a great many loans to the city and on real estate, to put them on their feet. There is a little town that learned that a big, strong bank in their community was a distinct asset and I think to-day we have the friensdhip of every unit bank in the city of Lorain.

So much for the question of the operation of branch banks by our institution. I want to say frankly I do not think it differs very much from the policies of other banks. They permitted us to preempt the branch banking business for about 15 years before any of the others came into it.

To-day I think, generally speaking, they operate their branches on much the same lines, with almost the same detail, as we do. I say that because I am not appearing before you as the representative of an institution at all. I am trying to express just my personal views on the branch banking situation as our institution sees it, as the result of 30 years of operation.

The other matter that I wanted to speak on briefly is the question of the relative merits of branch banking, group banking, and chain banking.

The CHAIRMAN. In that connection, I wish you would also give us your views on the areas to which branch banking can proceed. The comptroller, for instance, as you may know, has recommended to this committee that branch banking be permitted within trade areas, without designating just what that trade area should be.

Mr. GREENE. I was coming to that.

The CHAIRMAN. Include that in your analysis, if you please.

Mr. GREENE. Thank you; I shall.

If I were trying to select a textbook on branch banking conditions at the present time, I believe I would select the records of the hearings before this committee. Frankly, I have been interested in branch banking, as you see, for 25 or 30 years. I tried to bring myself up to date. I tried to find books on it and I visited schools of business administration. I have talked to head professors of universities and professors teaching finance and banking, and when I got all through, I found I got more information and meat out of the hearings you have held in the last few months than anywhere else, and I came down here feeling it was hardly necessary for me to talk about units, branch, group, and chain banking. I have a feeling of great modesty on that point after poring over the hundreds of pages of your hearings.

I believe that branch banking is far superior to group and chain banking, for these reasons, without attempting to go into detail.

Branch banking affords greater safety. By that I mean it naturally covers a great area and it affords a greater spread in your loans—more localities and more industries. That is rather obvious. It is the same principle that affects fire and life insurance companies. They desire as wide a range and diversity as they can get, knowing that brings them safety. It is not a guess or an opinion. In their instance it is founded on the most careful actuarial figures.

The other reason it affords greater safety is that the depositor of a large branch bank located in his community has back of the branch the capital, surplus and undivided profits of a very much larger institution and with the double liability, also, of course, the protection obviously is very much greater.

For instance, take in the city of Lorain I have spoken of: We would have a loaning ability of $4,600,000, according to the State regulations and according to Federal reserve regulations, as a member of that system, a loaning ability of $2,300,000. That is the rate we voluntarily run by. That is our own individual rule as well as the regulation governing rediscounts.

The second reason is the greater ability to care for loans. I have just taken care of that. I jumped ahead and stated that that is a a reason for the branch banking system affording greater service to a community than the unit banking system.

It is much easier to audit. Without going into that, we all know it would be a most difficult operation completely and simultaneously to audit some of these larger chain systems of banks. I do not know how you could do it successfully. Of course, it could be done, but I should think it would cost a great deal and require a great deal of checking up of different corporate records, and in some cases they are so far separated as to be, in my opinion, pretty nearly impossible for a good and tight audit. The individual banks of some of the chains extend 2,000 miles.

The CHAIRMAN. You think it would be necessary for the examining authorities to have access to all holding company records as well as of the different institutions?

Mr. GREENE. Yes, sir; and I think it would have to be simultaneous.

The CHAIRMAN. I agree with you on that.

Mr. GREENE. And when you jump into a bank, it is just as important to check authorizations as the figures. That means the checking of all figures of all the institutions.

Mr. LETTS. May I ask a question right there, Mr. Chairman?

The CHAIRMAN. You may.

Mr. LETTS. The holding companies, though, hold many other kinds of stock than bank stock. So, how would you manage about that?

Mr. GREENE. Let me see if I understand your question. I was referring more particularly to the holding companies of these big groups of banks.

Mr. LETTS. And that is what I am thinking of. Some of them hold not only the stocks of banks but stocks of insurance companies, mortgage companies, abstract companies, and I think quite a variety of stocks, and you have suggested, in answer to the chairman's question, that there ought to be a supervision over the holding companies; that they ought to be examined and that their holdings ought to be examined simultaneously.

I am wondering how we are going to create the authority which would give an examiner power to inquire into the affairs of a corporation which is existing under the laws of Delaware and not a Federal entity?

Mr. GREENE. I think I should have qualified my statement to the chairman; that my remarks cover the banking business only—that is, not insurance, abstract and other companies.

Mr. LETTS. In other, words, you mean that——

Mr. GREENE. That is what I had in mind.

Mr. LETTS. The comptroller should have power to simulatneously examine the units that compose the group—the banking units?

Mr. GREENE. Yes, sir.

Mr. LETTS. That are controlled or partially owned?

Mr. GREENE. Yes, sir.

Mr. LETTS. Now, let us see what you mean by that. The holding company might have the control of the stock or very much less than control of the stock of a banking institution; in other words, I am simply asking these questions to see if you do not agree that there would be practical difficulties in respect to that.

Mr. GREENE. Yes, sir; but if we are permanently——

Mr. LETTS. And if those difficulties are insurmountable, it is a very good argument in favor of branch banking.

Mr. GREENE. That is it.

Mr. LETTS. As against the group idea.

Mr. GREENE. I do not mean that it would be impossible properly to audit or check these banks. I do state that the auditing of a group or chain system is not one nearly as simple as to audit a big bank operating a number of branches.

The CHAIRMAN. But you do think there should be a simultaneous examination of all the units?

Mr. GREENE. Generally speaking. The examination need not, to the last degree, be simultaneous, but it has to be as of a fixed date. You know that auditing backward or auditing as of an arbitrary date in the past, makes your auditing very difficult because you have to go through all the transactions of the period since that date to see if there has been any change in assets or bad accounts from that date on. I am speaking technically of auditing. When you say "simultaneously," it ought to be as of a certain date, and if you do not do it simultaneously, you make the job enormously difficult. It can be done theoretically, however, either way.

The CHAIRMAN. You agree if it is actually simultaneously done, it will be more correct than if it was as of a certain date but actually on different days? In other words, if there was an examiner or auditor in each one of the units on the same date checking up the assets as of that date, it would be a better examination than if there was an auditor at the head office and then the checking up subsequently of the records of the units as of that date, in the other units?

Mr. GREENE. Yes, sir.

Mr. LETTS. If you do not do that, would there be danger of kiting of securities and funds from one institution around to another?

Mr. GREENE. In my opinion it would be unfair for me, not having any experience with a group or chain bank, to speak on that subject.

The CHAIRMAN. On the examination of your institutions, is there a simultaneous examination; or how is it conducted?

Mr. GREENE. I would like to supply that exactly later, if I may. I should like to speak to Mr. Houghton about that. I should like to describe that for you in the record at a later date.

The CHAIRMAN. Without objection, you can place it in the record at this point.

(The information requested is printed in full, as follows:)

The State examinations are conducted simultaneously at all branches and main office. These examinations, conducted by the State banking department are made twice a year at unannounced periods. The Federal reserve examination is made at infrequent intervals—approximately once a year—and as a rule covers inspections of loans and investmehts, and is liable to occur simultaneously with a State examination, in which they accept the State examiner's count of cash at all offices.

In addition to the above our offices are examined by the Cleveland clearing-house examiner about every three or four years, and this is a most thorough and exhaustive examination, particularly as it relates to loans.

The CHAIRMAN. Now, in regard to Mr. Letts's question about the examination of affiliated companies with the banks——

Mr. GREENE. Yes.

The CHAIRMAN. Take, for instance, the control of a national bank, where it is held by an affiliated company, a securities company or trust company or what not, either under the laws of Delaware or of the State in which it is operating: Do you not think that it is necessary for the examining force, if it be a national bank, to have knowledge of the assets of those affiliated companies, whether they be insurance companies, securities companies, finance companies, or trust companies?

Mr. SEIBERLING. Or investment companies.

The CHAIRMAN. Yes; or investment companies; in other words, how can the Comptroller of the Currency properly examine a national bank when the control of that bank is vested in a company which is doing any one of the classes of business that I referred to?

Mr. GREENE. I should think that the answer to that question would be that the comptroller or any examining body of a financial institution, would have to see that the shares of stock in any of this type of corporations that you named, was at least equal to the book value at which they are carried on the records of that particular bank. To do that, he would have a number of ways of doing it. It might have a ready market value to indicate its value. He might do it by an examination of that company; but at least he should assure himself that the assets which are represented on the books are at least worth the value set opposite them. That would involve just what you say.

The CHAIRMAN. It would involve an examination of the assets of these institutions, would it not?

Mr. GREENE. Unless there was some other way of determining that value. I take it that a stock that has a ready sale in the open market might be accepted, as undoubtedly the comptroller does not investigate such values now. He accepts the market quotation as the value.

The CHAIRMAN. Do you not think there is some question as to values established even in the market?

Mr. GREENE. I think if you will disregard values determined by the open markets you would take upon yourself a burden that the banks and the examining force could not handle.

The CHAIRMAN. I have been wondering, Mr. Greene, after observing the situation during the past year, as to whether or not we are justified in assuming that market quotations are in all instances a proper value. For example, when bank stocks drop from $600 a share to $185 a share in a day, it is developed that in certain leading securities the so-called market value is very changeable. There have been times during the past year when there was no market for some of our best securities when normally there was an active trading day by day.

In that connection I point particularly to bank stocks. There is a very slow market generally for bank stocks. It is nothing unusual for bank stocks to fluctuate from 50 to 100 points between transactions.

The same thing applies to insurance stocks. It is a question, therefore, I think, in the determination of real values whether we should accept the market quotations, because of these very wide fluctuations.

Mr. GREENE. I would answer your question, Mr. Chairman, frankly, this way: That in the course of industrial banking history abnormal times occur periodically and at long intervals and that the laws of regulations can not be established on a basis of those abnormal times. When abnormal times appear a conservative banker has to exercise an unusual precaution and care, but I think, over a reasonable period of time, if you were to attempt to disregard market values and if you were to make it a duty to analyze everything down to the bottom, as you would have to do if you disregarded market values, you would incur an expense that would be impossible to bear.

The CHAIRMAN. I realize that, but there is uncertainty in the so-called market quotations in the open market, and there are many fictitious values there all the time.

Mr. GREENE. Let me say how I think that has been cared for by well managed banks. For years the value of listed stocks—and we are not a Wall Street bank; we are a Mid Western city institution—the prevailing margin on listed securities was 20 per cent, so that a man who brought in a high-grade well-known security expected to borrow up to that amount. When those unusual market conditions occurred, the banks first lowered their rates to 75 per cent, then to 66⅔, and so on, and when the peak of that arrived most banks were lending on a 50 per cent basis. You would not want, in normal times, to have the 50 per cent rule apply. That is why I think the regulations should be based on normal conditions and not on very abnormal conditions.

The CHAIRMAN. The reason I raised this question was because of its importance in connection with the very study we are making here. The trend of the times indicate that the public generally, including the country banker and the people who are running financial institutions, are turning more and more to market values and stock-exchange quotations. It has gotten alomst to the point where it is a discrimna- in the banking business because of the fact that a bank is more and more looking to a listed value and to a growing extent governs the the granting or refusal of loans on that basis.

Now, we are in the position where the banks of the country are being utilized by those people who have money, and we are getting away from the original idea that the poor man could go in, where he did not have capital, and develop his business. It is a part of the whole concentration of business and industry in the United States. I am wondering how much effect the preaching of that thought has had in the concentration of loans on stock-exchange collaterals.

Mr. GREENE. I can not agree with you. I think we overlook the fact we are only six months away from a very unusual period. In the history of England and France, before us, there have been periods of intense speculation which produced abnormal conditions, and we are just coming out of one of them, and the thought that Wall Strret is drawing the money from the country and especially into listed securities, which is absolutely true up to the middle of last October or the first of November, but is is not so true of 1930. In my opinion, we will get bank into the oridnary and normal conditions, except with the condition that you must bear in mind, that at the beginning of the war we sold Liberty bonds to the ordinary person, and that opened his eyes to the investing of his funds and to other things than his home and in savings accounts, and he began to invest from 1916 on, and we have had a great many—some say millions and others say less than that—investors in this country in securities that never owned anything but real estate before that.

As the country gets older and we have more capital, you will have a gradually increasing supply of funds for investment, both in people and numbers of dollars, just as they have had abroad, but I do not see any bad sign in that. I certainly would rather buy securities listed on the market that affords a ready sale than to buy securities just as good that do not have that, because many a man wants to convert his investment into cash, and investing in securities on the stock exchange is valuable to him. An exchange well run is an asset to the whole country. Of course I am alluding to the higher class of business.

Mr. BEEDY. Mr. Chairman, are we following the rule that each one of us shall have an opportunity to question the witness?

The CHAIRMAN. I was simply picking up a loose end which I should not have done. I would like, Mr. Greene, to have you complete your statement.

Mr. BEEDY. Before you do that, I should like to ask you to tell us whether the examinations of your bank and branches are simultaneous or not. I did not understand why you failed to answer that.

Mr. GREENE. I wanted to be sure.

Mr. BEEDY. Of what?

Mr. GREENE. Of the exact process employed, and I wanted to be sure for this reason: The Cleveland Trust Co. is examined under the authority of three different authorities; it is examined by the State examiner regularly at unknown periods; examined by the Federal reserve bank examiner, but even more than those two, Cleveland is one of those cities that employs its own clearing house examiner and that is the most drastic and most careful audit and analysis that we have. It is no easy matter to examine 58 offices. I wanted to be accurate in my statement.

Mr. BEEDY. You have been with them for quite a number of years and unless you have had a change in the last year or two, I thought you could tell us whether they put examiners simultaneously in the branches as well as the head office.

Mr. GREENE. It has been four years since I have been in the active banking business. Up to that time I could tell you right off.

Mr. BEEDY. Do they put in examiners in the branches on the same day they start in the head office?

Mr. HOUGHTON. The State examination is done simultaneously. The others are more infrequent and I am not so sure about them.

Mr. BEEDY. When the State examiner shows up at the head office, there are also at least 58 examiners put, on the same day, in the branches?

Mr. HOUGHTON. They close their business on the same day and all appear at the branches.

Mr. GREENE. I can answer as to the clearing house examiner. He counts the cash simultaneously. He does not audit all the other accounts simultaneously. He can not do it. That is the most minute examination, of every asset and of every loan. It takes months to complete it. He does it by going back and taking figures as of a given period and going through the changes thereafter. May I proceed, now?

The CHAIRMAN. Yes.

Mr. GREENE. I was giving reasons why we considered branch banking far superior to group and chain banking. I have said the first reason was greater safety, greater ability to care for the needs of people for loanable funds and then we came to the question of greater ease in auditing.

My fourth reason would be greater fluidity of credit. I do not know that that is the correct expression, but it permits us to take the surplus funds of one community and loan it in another locality. It is true we are not separated by many miles, but our branches are in different localities, while, as I pointed out, Loraine, Painesville, and Willoughby need more funds than their total deposits. We supply them. There are, undoubtedly, other branches where it is the reverse.

The ability to let your loanable funds flow from one place to another so they can be available where most needed, is, in my opinion, much greater in branch banking than in group and chain banking.

The fact it is more economic I do not think I need go into because one who has appeared before you, at least to the extent I have read the testimony, admits that. It is obvious that the overhead is greatly cut down; it is obvious you can put branches in communities that can not support unit banks; it is obvious that things like advertising, statistical information and many departments of service which a big bank must maintain, can be supplied to branches with hardly any additional cost. For instance, our statistical and credit department and travel department and steamship department, among other things—we have just one at the head office that issues steamship tickets, and the overhead is very greatly reduced.

You may say being more economic to operate is not an advantage to the public. That is not true. To the extent that business or individuals require loans or borrowed credit, anything in our system of banking that reduces the cost, inures to the advantage of everybody, because it makes the cost of articles less. The general public are just as much interested in seeing that the banking system is the most economic that can be adopted, precisely as the bankers themselves, and if branch banking is more economical than other forms of banking in my opinion, that does not inure to the selfish advantage of the bank stockholders alone. That is an advantage that is shared not alone by the banks, but by business generally and the investors and people generally.

The last reason is that it is much easier to regulate and control. I think this committee has questioned some of the group and chain bankers and found it was rather difficult—I found it was difficult—to determine who granted the loan, whether the board of directors of the holding company or the advistory committee or the board of directors of the bank or whatnot. Perhaps it would be unwise for me to say any more than the control and regulation of a bank operating branches is far easier than the regulation of a group or chain system.

Now, the only criticism that seems to be universally advanced in favor of group or chain banking as compared with branch banking is the fact they say group and chain banking increases local pride, local interest, and local good will.

I do not believe that is true, and I think our experience proves it is not true, but if it were true, for the sake of local pride and interest, are you going to say that group or chain banking is preferable to branch banking when branch banking is more economical, has greater safety, affords greater service—in other words, it seems to me that the advantage is very great indeed as compared with the disadvantage of branch banking, if that is true, which I do not believe. The disadvantage is very small indeed in comparison to the advantages which you get.

One reason for my statement to that effect is this: There are few, if any, of group bank advocates who are not themselves using branch banking, that I think they would use it universally, if permitted, and

I believe that branch banking would be the one to survive if the two were put on an equal footing.

If we are correct in saying branch banking is superior, why is it not more generally used? The answer is, as we all know, because the national bank regulations limit their branches to the city limits where their home office is located.

The State banks, for the most part, are either restricted in their branches to the city, and second, to the city and the immediately contiguous territory—but that is not so important because, without exception, almost all the big banks of the country are members of the the Federal reserve system and if you are members of the Federal reserve system, you have the same restriction as the national banks, and you can not go outside of the city.

Mr. LETTS. You can talk about the desirability of changing that law, though.

Mr. GREENE. I was hoping to come to that, I believe it is originally due to a peculiar tenet in American political history that favors unit banking and possibly makes a big financial institution a matter of unpopularity or suspicion. The fact that banks have been unpopular since before the American Revolution is absoultely true. Our colonial banks were put out of business—some of them—because it was said their loaning powers were not applied justly. Two of the largest banks in the country at the time of the close of the American Revolution, the Bank of North America—its recharter was refused although it got another charter in another State and then Pennsylvania woke up and gave them a charter—that bank is still in existence, and the Bank of New York was refused a charter for six years, operating in the meantime without a charter, and is in business still. It began business in 1785.

The first United States bank was regarded as unconstitutional and was so reported to Washington and Jefferson. Hamilton, however, came to the rescue and gave them an opinion that made it wise for Washington to believe he should go ahead. The first United States bank was put out of business because of criticism largely due to what they said was favoritism.

The second United States bank, of course, got into politics and its charter was not renewed for similar reasons.

Then came the Civil War and, in order to sell bonds, the Congress and the Secretary of the Treasury got up a system that forbid branches and it was largely to permit the selling of bonds. So, we have a background that is opposed to banks operating in large areas and we have a background that favors the unit bank. Those are the reasons which are insistent, but it seems to me that is not the big rule that governs that. It is because we are a new nation and up to the time of the great war, the desire for loanable funds has always exceeded the supply of funds, and when that condition exists, the unsupplied borrower naturally objects.

In the development of this country within so short a time—we were a borrower of foreign capital just before the war—there has been a great change in business and banking conditions, and when business men get together now, it is found they have gotten away from the idea that it is un-American to have big banks and big business. When the railroads were taken over by the Government, they were put into bigger units and we have now almost everywhere, bigger chain stores, and so forth, and we have to have them to provide more economical production.

Why are we more prosperous than England? It is because we have learned mass production, and we can produce goods, by mass production, cheaper than they can. If you could see an article produced in this country and in England, you would not be surprised to understand why we can make money and they can not.

The antipathy against branch banking is disappearing, in my opinion, and we are on the verge of putting banking on a bigger and stronger basis. I do not see any disadvantage of going along with that same tendency in banking as in other lines. If we do not do it, our banking business will not keep step with the growth of our industrial institutions.

The greater you restrict banks in this wise growth of branch banking, the more you will centralize it in one or more cities. I think you should give the banks a chance to develop along those lines, if you believe, as I do, and we do, that branch banking is safer and more economical.

There has been some talk of bigger units and the fear of monopoly. I think a monopoly in the banking business would be extremely undesirable. I can not conceive of anything worse. However, I do not think there would be any chance of that occurring.

You have a splendid example of that in the big country just to the north of us. In Canada, branch banking control is a Dominion matter. In Canada to-day, with nation-wide branch banking, which I am not at all advocating at this time, there are 13 chartered banks, as they say, and that does not include trust companies. So, with nation-wide branch banking, in a country less developed than ours, we have 13 banks and a number of trust companies which are doing a savings banking business and time banking business, and, of course, we know Newfoundland is not a part of the Dominion, and that 13 banks does not include that colony.

Mr. Fenn. The Bank of Montreal is the fiscal agent for that Province. The Bank of Montreal has a branch at St. Johns and one at Curly.

Mr. Greene. What I meant to say was that, in counting Canada, we had to except Newfoundland, which is not a part of Canada.

Mr. Fenn. I go there every year and know the conditions there.

Mr. Greene. The last matter I wanted to speak of was simply the matter of what steps, if you did favor the extension of branch banking, you should take. It seems to me to answer that question—and I know of no harder one, the time element comes in. At the present time the country is rushing into group and chain banking so fast that if any of us should present figures to-day, to-morrow they would be out of date and we would have to correct our statement. I started studying this in trying to find out the number of branches of groups and chains in this country. I gave it up. It could not be done. I found I was wrong every day I started to check up.

It seems to me we ought to take immediate steps to release branch banking from the present restricted condition.

What has been generally advocated is permitting them—I am speaking of the immediate development—to operate in the metropolitan areas. We all know what that means.

I have, in my own city, heard it described as the region in which the people in the central city live and are thoroughly familiar. It might be described as the city and its subsidiary territory in a business or economic way, the place where the commercial and financial activities center.

But the trouble of applying that sort of description in a legal way is that it is too indefinite, and I believe you have got to come to a description by metes and bounds, and that is very difficult to do, or by political subdivisions.

My suggestion would be a county and contiguous counties. That would give you an area considerably beyond the present situation. It would not be an extension which would involve any greater restrictions of banking business or any very great change. Why do I say it is important? We all know that the unit banker is having a harder and harder time to exist.

At the present time there are many growing communities outside of the city which have no banking connections and are not likely to get them. Those are the communities that are growing vastly. If you examine the census of any great city, you will find that the central portion is standing still and the suburbs are jumping up say 500 per cent. I was amazed to see the figures of communities around Cleveland. They are not getting any banking facilities. There is no small bank being organized to-day. That has stopped.

Branch banks are not allowed to go there. So, there they are. They are simply adding to the difficulties of congestion and holding back the economic growth of those communities.

Mr. Beedy. You may know this, but your suggestion is not an untried idea of branches in a county and contiguous counties. That is the law in my own State of Maine and it has worked very, very satisfactorily.

Mr. Greene. I doubt, then, if I could suggest anything new to this committee. I think you have had everything suggested to you.

I know that is not a new situation, but I know that is something that is required now. I do not think that would be adequate for 3, 4, or 5 years from now because, by that time, the group and chain banking systems will have grown to tremendous proportions and branch banking will not be able to keep up with them, and you will have adopted a system less safe and less economical and less desirable.

Now, the next problem is one to which I feel no one would feel he had a safe and wise solution. I think we should gradually step up to state-wide branch banking. I think that ought to come within three to five years. I think it ought to come within that time.

The next step, I think, would be what we have heard so much about—the trade or economic area branch banking. I believe there is greater difficulty in defining that than the metropolitan area. What a trade area is, no two men describe exactly alike, and the practical problem that involves this banking business, it seems to me, is this:

The underlying principle is to provide an area in which there is sufficient diversity to insure safety to the banking business. That area in New York State, Pennsylvania, and Ohio is one matter and another matter in Nevada, Montana, Idaho, and so forth; in other words, any law that you might devise which would provide sufficient territory for diversity in the far West or Northwest might be a very large territory in the congested East. When that time comes, I believe you might form a committee—this is not a personal suggestion; I have heard it from others—but supposing you had a law authorizing a committee composed of the Secretary of the Treasury, the Comptroller of the Currency and the Governor of the Federal Reserve Board, with authority to widen the scope of branch banking, based on the principle that a wider field was necessary, in my opinion, that would be one effective way of handling that situation.

The only other thought that I have in this matter is this—and this is a big problem: The minute you cross the State line in branch banking, you bring at once into question whether the country is better off with one system of banks or two systems. I am alluding to our present two systems of banking.

The CHAIRMAN. You mean State and national?

Mr. GREENE. Yes, sir. When the Federal reserve system was formulated, you will remember that Professor Willis spoke at great length on whether or not it meant banks would be gathered together in one system. At that time there was a distinct difference between the two sets. Generally speaking, the national banks took care of demand deposits and took care of temporary borrowers, and the State banks generally speaking did the savings business of the country and took care of long-time borrowers.

Now most long-time borrowing is generally considered a real estate proposition, together with bond buying or fractional parts of mortgages. There was a marked distinction between the scope of business transacted by those two great systems.

What happened? Since the Federal reserve system was inaugurated, and more especially since the national banking system began to suffer inroads, the differences between the two systems had practically disappeared, except for the fundamental difference that national banks get their charters from the national Government and are examined by it. You have, one by one, given to national banks the right to operate savings departments and loan on real estate, and an indefinite charter instead of a limited charter, and there have been other changes which have made the two plans so similar to-day that it is hard to distinguish their business and scope except, as I say, the source of their charter and their examination.

Undoubtedly, when you get to branch banking, as I firmly believe you will, and cross State lines, it seems to me the natural tendency would be to pass over into the national system and you will have one system of banking business instead of two. I think that is worthy of consideration as one of the results of what is likely to happen when you cross over.

Of course, the other way would be still to maintain these holding companies which would be, in my opinion, superbanks.

Now, I want to say I do not believe there is any advocate for branch banking that has anything but an utmost repugnance to the idea that a monopoly of the banking business should exist. That fear, I think, lies in the minds of some people who are opposed to branch banking.

I think, Mr. Chairman, that is all I care to say on those two subjects. I shall be glad now to endeavor to answer any questions.

Mr. LUCE. Mr. Greene, I should like to express my personal appreciation of your particularly clear, thoughtful, and helpful statement. Possibly you can take us still further in a matter that has not received much attention in these hearings.

Last evening I was reading an article on investment trusts in which the writer made the prediction that within no long time, individual holdings of bank stocks would disappear; that all the stocks—at any rate of the important institutions—would be held by a new form of ownership known as investment trusts. That prompts me to inquire or to make some inquiry about the stockholders in the banking institutions. As a matter of practical banking experience, do you find it makes any difference to you who owns the stock?

Mr. GREENE. I think I do. I believe the ownership of bank stocks by individuals, if not necessary, is extremely advisable. I would look askance at a future situation that placed the control of our great banking institutions in any hands except in the hands of men of—I mean personal holdings—of men of the highest personal experience. I do not believe there will come a time when the bank stocks of great banks would all fall into the hands of investment trusts.

Mr. LUCE. In the daily conduct of your bank, how often do you hear anything from your stockholders? What part do they play in the conduct of your bank? We have been told much about the relation of directors and officers on this subject. It has been urged by those who defend group banking that the personality of the president and the directors and other officers is of importance to the smaller communities. I do not recall that anybody has dicsussed the practical relation of the stockholder, and my observation has been, scanty to be sure, that the personality of the stockholder did not cut much figure in the conduct of a bank.

Mr. GREENE. I should like to answer that question in this way, that if by that you mean the individual stockholder attempts, by calling on the officers at the office and urging any particular course or criticism of any particular transaction, I think there is practically little or none of that. But the good will of that stockholder is something that is very essential and if that stockholder ceases to hold that bank in the highest estimation, the bank will know it very quickly. So, it is the indirect influence of that stockholder that is more essential, I think, than any other element. You are dealing with a business that is unquestionably the most sensitive to good will of any in the country.

If the stockholders become critical or suspicious, what will the public do? He is interested in an impersonal way. He can go across the street and do his business with another bank. So, although the stockholder may not take any direct personal interest in the bank, indirectly, he is doing it all the time.

Mr. LUCE. What possible way would there be to prevent this process of which I have spoken—the absorption of bank stock by investment trusts?

Mr. GREENE. That is one of the problems of investment trusts. I would say that, as far as I know, whenever a bank has had any ulterior motive other than the profitable transaction of the banking business, it has failed, and when the banking business gets involved as an unimportant part of any other business, in my opinion, it will be a dark day for the banking business; in other words, I think it should always be a business by itself.

There is a way which used to be recognized—it was recognized, I think, in the first United States Bank—of lessening the voting power as the size of the holding increases. I do not know whether that is practical or not.

We are just talking about theories. I have no definite thought, but I am saying that I think there is something to be said about the fear you express, and I am wondering if the restriction in the ownership of a bank might do some harm. You have an absolute restriction of corporation beyond certain extent. You might lessen the voting power.

Thirdly, I think a bank should not have any other motive except to conduct its own business for profit, for if it is not conducted for profit, it is not well run.

Mr. Luce. Are there any indications that, in your own institutions, investment trusts are already effective?

Mr. Greene. I am pleased to say that two or three times I read in the press we were being bought up, but when we came to investigate it, we found it was infinitesimal.

Mr. Luce. Is the stock of your bank listed on the local exchange?

Mr. Greene. Yes, sir.

Mr. Luce. Then, as fast as it is offered, it can be taken up by investment trusts?

Mr. Greene. It can, but I have no fear—I do not say it could not be done, but it has not been done—but I would say that we would view it with concern if it had happened.

Mr. Luce. We have had, in the last two or three years, an exceptional amount of propaganda in favor of the ownership of bank stocks. In fact, books have been written to show how far they exceed any other forms of investment, in their promises and I see no obstacle myself in the way of your individual holdings in your bank disappearing sooner or later.

Mr. Greene. I believe when they do, sir, there will be other banks formed.

I think you failed to appreciate—and I do not say it invidiously—this powerful influence of good will.

Mr. Fenn. You are familiar with the Canadian system, I take it, from your reference here to the 13 banks of Canada?

Mr. Greene. Generally speaking.

Mr. Fenn. Perhaps you can inform us in regard to this: Have the investment trust systems grown to any extent in Canada; in other words, are the holdings of these great branch banks—the Bank of Nova Scotia, the Bank of Commerce and the Bank of Montreal, for instance—held to any extent by investment trusts, that you know of?

Mr. Greene. I have personal knowledge of one holding only. I could not answer that accurately. I would say that my general impression is that it is probably done in some instances, but on a smaller scale than here, but probably, I presume, they will follow us a little slower and to a little less extent.

Mr. Fenn. Do you inow whether or not the Bank of Montreal still pursues its old practice of requiring that the purchaser of stock in that bank must meet the approval of the Board of Governors?

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

Mr. Fenn. They had that system some years ago and in the transfers of shares of their stock held by estates, it involved difficulties at times. I know of an estate in my own city where they had to go through considerable red tape as they call it, in order to get that transfer of the stock in the estate; where they had to ascertain whether the people who were to receive the stock were agreeable to the Board of Governors of the bank.

Mr. LETTS. Was that an effort to keep it a closed situation?

Mr. FENN. I am not passing on that. It may have been to keep control of the bank where they wanted it. They may have abrogated that rule. If they have not, that would prevent an investment trust getting the stock of that particular bank.

Mr. GREENE. I could not answer that. I presume their custom is much as our own.

Mr. FENN. The Canadian system allows branches outside of Canada. The Bank of Nova Scotia has a branch in New foundland and also through the West Indies, and of course our own national banks are authorized to have branches in foreign countries and I presume that has grown to a considerable extent, but we have no branches in Canada, as I understand it. That is all I have, and I thank you very much.

Mr. BEEDY. I understand your thought is that as long as you can keep the ownership of bank stocks in the hands of individuals and your stockholders are satisfied, they are active agents for the well being of your bank at all times. That is, of course, true. I know that works from personal experience.

But your fear—and I just want to get a step further—how will the fear of the ownership of your bank stocks by investment trusts work in that respect? Let us assume that an investment trust buys a large block of stock in your bank: There are a great many stockholders in that investment trust. A great many of us own shares in investment trusts to-day. We are familiar, to a greater or less extent, with the holdings of that investment trust. Now, it has holdings in a big local bank. We want to see that bank thrive and as long as that bank is carrying on a legitimate banking business and meeting the needs of the community, why are we not assets to that bank and to the community through our holdings of the stock of that investment trust?

Mr. GREENE. Mr. Chairman, is it possible to answer that question without it being made a matter of record?

The CHAIRMAN. Unless the committee objects, we will be glad to hear you off the record. The newspaper men are present, however. The ears of the world are listening. However, these are good boys, and if you ask them not to mention it, I am sure they will not publish it.

(Discussion off the record.)

Mr. BEEDY. You think there is a greater danger that flows from the control or ownership of the stock of a bank by an investment trust than by individuals or groups of individuals?

Mr. GREENE. Of course it may be only an economic step in our development. I am inclined to think we have had too little experience with investment trusts to pass on them. After they have operated 10 or 20 years we will get a fair view of the results of their operations.

When you say "investment trust," that is quite a general term. They differ considerably in their nature and it is pretty hard to generalize about them and be fair to them. There are some that are admirable and some not so admirable.

Mr. BEEDY. You have foreshadowed what your answer will be to this question, but assuming that a bank administers trust estates, would you consider it a wholesome or wise policy for your bank to be also engaged in the underwriting of securities.

Mr. GREENE. I see nothing that is improper in the underwriting of securities, provided they are carefully chosen.

Mr. BEEDY. In other words, you think it is a perfectly wise policy for a bank to put itself in a position to underwrite securities when it handles trust estates and is an agent to buy securities for those trust estates?

Mr. GREENE. No. You spoke of a different thing. If you mean to sell to the trust securities at a profit to themselves, of course, that is improper and illegal and it is not done by good institutions.

Mr. BEEDY. That is being done, of course, somewhat generally now. A bank will set up an affiliated investment trust company and buy and sell securities and at the same time, although it is a separate legal entity from the bank itself, it is selling and buying through its securities affiliate.

Mr. GREENE. I do not think that practice is carried on by the highest type of institutions.

Mr. BEEDY. If you have read these hearings, you will see that it is being done.

Mr. SEIBERLING. I have just three questions I want to ask. I wanted to know if you will discuss, for a minute, the need of corporations for acceptable paper for rediscount in the Federal reserve banks —whether the right to rediscount should be liberalized and broadened out.

Mr. GREENE. I think, Mr. Seiberling is referring to the comments made that the corporations are not, at the present time, desirous of borrowing, and consequently, the banks find themselves short of paper discountable at the Federal reserve banks.

The CHAIRMAN. I do not know what is in Mr. Seiberling's mind, but there is presented to us here the problem of making eligible for rediscount installment paper, investment banker's paper, dealers in municipal securities and mortgage bond people, who are seeking to make mortgage bonds eligible for rediscount. There is a movement also to make other bonds eligible for rediscount.

Mr. GREENE. I think the question divides itself into two parts; in the first place, the scarcity of that paper is due to a factor of the same high prices for stocks and the speculation we had last year, and that is, these corporations found it possible to put out their stock to their stockholders at a rate which was considerably lower than their dividend rate and they were wise enough to seize the opportunity. The stockholder was glad to buy the stock and the companies improved their statement and sold hundreds of thousands of stock to stockholders through rights, which stockholders either used the rights or some one took his place, and that strengthened the position of a great many of our big corporations. It was a wise thing for them to do, but it took them out of the borrowing column. That is a temporary situation that will not happen again.

I think the scarcity of paper that is eligible is again due to abnormal conditions. We will assume, for instance, that there is a $2,000,000 corporation. Its stock is selling at 120 and paying 4 per cent dividends. There were many stocks selling on as high a basis as that last year. Such a condition enabled corporations to sell new stock to their own stockholders, at, say, 80 and greatly improve their statement. If they had bonds outstanding bearing 5½ or 6 per cent, they could retire such bonds or preferred stock, or if no such bonds or stock were outstanding they could make additions with their new capital furnished by stockholders on a basis of 5 per cent for the new money (a 4 per cent stock costing 80). They could even afford to take up their temporary borrowings with the proceeds of stock on this basis. Everybody was happy and it was a good thing because along came the depression and our big corporations were probably in as good shape as they had ever been. At any rate it helped the corporations.

Now, I believe we will go back to a condition of normalcy and banks will again have more paper than they have had lately.

The CHAIRMAN. You think the corporate interests of the country are going to surrender their snug position that they occupy now?

Mr. GREENE. The corporations might be unwilling to give up their snug position, but it depends on the willingness of stockholders to pay for new stock on a basis of return very unattractive under normal conditions.

I speak of that very feelingly because I participated in some of those rights at prices that were not as favorable as I thought they were.

The other principle involved, Mr. Seiberling, is this: It cost a small bank a great deal to join the Federal reserve. If that bank does not have the class of paper to offer, his benefit is not as great as it should be. His earnings are reduced in the par collection of checks. If there were a way properly to broaden a little the ability of the average bank to borrow from the Federal reserve, I am inclined to think it would be a desirable thing.

That involves four things. He only gets 6 per cent on his capital and no interest on his deposits. If he does not have the notes and securities to offer as collateral, he does not get the benefit for which he is paying, and in the meantime he has given up what he used to make in the collection of checks.

That is their situation. I am inclined to think there ought to be possibly a little relief, especially if you are trying to get the smaller banks into the Federal reserve system.

Mr. SEIBERLING. What is your judgment as to the influence of New York banks on outside banks as to whether it has increased or diminished?

Mr. GREENE. The Federal reserve banks, in my opinion, have pretty nearly completely changed the situation. In former times, before the Federal reserve, a bank feared two things; one, a run on itself and it feared a general panic or depression. It felt it had to be fortified against that condition. Any bank in an ordinary city felt it must have a very good friend in the banking world in a reserve city, and if it was in a reserve city, it wanted to be in contact with a bank in a central reserve city; so it pyramided up to New York; in other words, you felt you must be on the utmost good terms with a bank in New York.

That situation has changed. You still carry a handsome balance in New York, but the bank in New York is the recipient of your favor instead of your being a possible solicitor of loans from it.

To-day the banks of New York call on their correspondents throughout the country, whereas formerly it used to be the banks throughout the country that called very humbly on their New York correspondent.

Mr. SEIBERLING. There has been a great deal of discussion in regard to segregating assets and having certain secured deposits, time deposits, and giving them a preference.

Mr. GREENE. I think the time for segregation of assets has passed. With the bigger banking units, it is not necessary and there is no fundamental difference between the different classes of depositors. They are all loaning their money to the banks. One is lending it on a time contract at a higher rate of interest and the other is lending it at either no interest or at a low rate, payable on demand. I feel that the segregation of assets which might have been desirable in some States and under some conditions, has ceased to be desirable. I do not think they need that protection.

If you throw that protection around savings, you tend to lower the rates the banks can pay. I think it is far better to let all depositors come in on the same basis.

Mr. SEIBERLING. I understand you have had a policy in your bank to charge 6 per cent on your loans, and that has held good in bad times and good times for a great many years?

Mr. GREENE. That is true; that is, we went through the war without raising our rate above 6 per cent.

The CHAIRMAN. Which war do you mean?

Mr. GREENE. The Great War. [Laughter.]

Mr. SEIBERLING. That is all I have, Mr. Chairman.

Mrs. PRATT. I assume you think the day of the unit bank has passed?

Mr. GREENE. I do.

Mrs. PRATT. In speaking of areas in which branch banks might be established, you apparently would be in favor of having a flexible provision in any legislation, by which those areas could be changed from time to time. Do you think it is possible to lay down a definite area at this time?

Mr. GREENE. I believe there ought to be a general rule, but if that rule or restriction did not permit of banks getting the proper diversity of business, that then the exception should be permitted in order to make our banks of the whole country—put them in the safest and highest position possible.

Mrs. PRATT. That would require a provision in the original law. You could not legislate on individual cases each time.

Mr. GREENE. I think you are coming to nation-wide banking. That is going to be a long ways off, but every argument for branch banking, if it is sound, is sound for a larger and larger territory; in other words, you are going to come some day to the most economical and safest system of banking that you can obtain, and I believe that that is ultimately branch banking on a nation-wide scale.

Mrs. PRATT. I think you spoke of the good will of the stockholder as being of such value to the banks in connection with the success of banking in a community. Is it not true that the stockholder pays very little attention to the conduct of the bank? Is it not true that they sign their voting proxies almost unthinkingly, and is it not also true they take very little interest until after something has happened to the bank?

Mr. Greene. I think that is true except I think when anything happens which in any way lessens the prestige of the bank, they become active. When you become active you do not go to the office and protest, but you are indirectly contributing to the good will of that bank and the reputation of that bank. That bank is extremely sensitive to what its stockholders think; in other words, if a man says, "I am a considerable stockholder of that bank and I am dissatisfied with their policy and the credits they have extended," that has a serious effect on that bank and the bank knows it and it so conducts itself that it will avoid that criticism.

Mrs. Pratt. Theoretically that is true, but it is not true of an investment company or a holding company that they make a greater business of following the conduct of a bank than the individual stockholder? I know of very few stockholders who, it seems to me, pay the slightest attention to the conduct of a bank. I mean by that the average lay individual, and there are lots of us. I can not see that those people would look into the management of a bank until there was a rumor that something was wrong with the bank, while the investment trust makes it its daily business to watch the conduct of the bank.

Mr. Greene. Of course we have different ideas of just what we mean by "investment trusts."

Mrs. Pratt. I was speaking more of holding companies.

Mr. Greene. You mean the big holding companies?

Mrs. Pratt. Yes.

Mr. Greene. You are speaking of group banking.

Mrs. Pratt. Yes.

Mr. Greene. I misunderstood your question. Of course that stock is just the same as the bank stock. I do not think there is any difference. Assume that a holding company got into the hands of an unscrupulous crowd and they controlled the management of those banks; it is no different than if the management of a bank got into that condition; in other words, public opinion will deal with the two situations exactly alike. I do not believe there is very much difference; in other words, the stockholder of a holding company would be no more active than the stockholder of a bank. It would make no difference.

Supposing you were to take, say, the five leading banks in New York City—for example, the Chase, the National City, the Guaranty, and so forth, and you put them all together and exchanged the stock of those companies: I do not think it will increase or decrease your activities. I think the good will and reputation will affect the bank business exactly alike in either case.

Mrs. Pratt. We have had considerable testimony here to the effect, I think, that these holding companies which buy these little unit banks or rather get the stock of little unit banks, feel their system is the ideal system in that they are preserving in the community the independent interest of the people and the good will of the people as well as preserving the local management of those banks, and yet the holding company has a supervising interest and is always on its guard to watch those banks and advise and criticize them. I think that was Mr. Wakefield's testimony. You feel that that is less satisfactory than the branch system?

Mr. GREENE. I certainly do, for two reasons: In the first place, I do not think that question of good will would be so recognized if it was known it was done at the expense of safety and service. They do not know that.

Mrs. PRATT. They would not grant that.

Mr. GREENE. In the second place, they do not know what the advantages of branch banking would give them. There enters into this, this fact: You get a narrowing profit in the banking business. Your expenses are greatly increased. Now, which one will survive? It is bound to be the one that is the most economcial. You can not get the service in the unit bank that you can render through the branch bank. For instance, take the statistical service, advertising and many other services: I think in those parts of the country where there is a rabid antipathy to any kind of banking, whether unit, group, or what not, it is because they do not appreciate thoroughly the qualities of the other system.

Mr. BUSBY. You say you are pretty sure we are coming to nation-wide branch banking?

Mr. GREENE. In the far future.

Mr. BUSBY. You suggested that we would be to the trade area period within three or four years?

Mr. GREENE. I think my steps were the county and contiguous counties and then the trade area and then nation-wide branch branch banking.

Mr. BUSBY. Why do you come to the conclusion we will have nation-wide branch banking within a relatively short time?

Mr. GREENE. Because the entire trend of the country is to bigger units in industry as well as everything else; because of this rule of letting your credit flow from a place where there are surplus funds to a place where it is needed most; because of the economy you are giving and, in the end, where a system is the safest and the most economical and renders the greatest service—which I thoroughly believe branch banking would do—you are bound to come to it. I think that the extension of branch banking to the limits of the country in the last analysis is bound to come.

Mr. BUSBY. Have you given any thought to the possible number of systems that will be in operation at the time we reach nation-wide branch banking?

Mr. GREENE. I think that will hasten the privilege to do branch banking because the group system, if they take another jump or two, as they have already done, will be across the country. One group is across the country already.

Mr. BUSBY. I was speaking about the limited number of systems in operation when you reached nation-wide branch banking.

Mr. GREENE. If Canada had 13 banking systems, not counting trust companies, with 8,000,000 people, I think we will have many times that number for a country of 120,000 people.

Mr. BUSBY. But practically five of the Canadian banks do most of the business done there. Is not that true?

Mr. GREENE. Yes.

Mr. BUSBY We do not have the system of chains that they have. They go out into the country ahead of the railroads and operate that office for two or three or four years at a loss. That is not the experience we have had in establishing branches in this country.

Mr. GREENE. I think it is. We do not expect to have a branch make money for us for two or three years.

Mr. BUSBY. Do you not make an examination of that community from the standpoint of a paying banking business?

Mr. GREENE. Well, we build for the future.

Mr. BUSBY. And do you not select an independent bank when you go to take it over as a branch, that is really on a sound basis?

Mr. GREENE. We would not acquire a bank as a unit bank for operation as a branch, unless it was on a sound basis, naturally.

Mr. BUSBY. And you would not acquire that bank unless it was in a good territory for banking development?

Mr. GREENE. That is correct.

Mr. BUSBY. That puts you in the attitude of the oil companies that go into proven fields and invest and put their holdings into oil wells where the field has been proven by the wild cat, does it not?

Mr. GREENE. I think——

Mr. BUSBY. I think there is the same similarity between taking over established banks and the oil companies taking over oil wells in a proven field. You are getting the benefit of what has been proven.

Mr. GREENE. I do not think there is a similarity between banking and the oil business for this reason: The oil man takes a great risk with a chance for a great profit. In the banking business there should not be any chance for great profit. When you compare the banking business with the driving of oil wells, I do not feel there is any similarity.

Mr. BUSBY. If you pioneer in the banking business, you can not hope for much except the development of the community and a small return on the capital investment

Mr. GREENE. I think you have gotten the idea that the banking business is too cold-blooded in that matter. A banker is watching the growth of his city and community all the time. You see a crossroads as the beginning of a neighborhood center. You will say, "This is a community that is going to be populated by working men." You should bear in mind that the poor man is a better business prospect for a bank than the rich man. We would rather be a banker for poor men than for very rich men. If you feel that that territory is going to be built up by average wage earnings, you will be willing to go in there and take a loss for two or three years. We have done that. Many of our branches that you call de novo branches have to be built up to the point where they will make money. We plan also in the banking business.

Mr. BUSBY. Most all of the systems that have been presented here went into good fields in proven territory and took over the best banks.

Mr. GREENE. That is rather different. You are not talking about branch banking; you are talking about group banking.

Mr. BUSBY. I am talking about both. I have not seen many hunting around for doubtful places.

Mr. GREENE. We simple ask for an opportunity to develop——

Mr. BUSBY. But your ultimate object is to make money.

Mr. GREENE. Yes, sir.

Mr. BUSBY. Do you think the country would have developed in the rapid manner it has if it had to depend on group or branch banking to establish contacts?

Mr. Greene. I think it would have developed faster.

Mr. Busby. I wish you would tell me why, when your system gives no ear to anything except absolutely sound security for every loan that it puts out. It takes nothing of the towns that is incident to developing a community or property.

Mr. Greene. Mr. Busby, I do not think you understand that we have loaned millions on unsecured paper, where we have nothing but the character of the borrower back of it.

Mr. Busby. I do not know what character of paper you take.

Mr. Greene. We have made loans which take page after page to record at each meeting. I called once upon a New York banker who showed me all their maturing notes for one month. They were all on one page of that sort (indicating). We have a discount committee that goes over our maturing unsecured loans once a week. It is a closely typewritten report and runs from 24 to 35 pages of loans each week, some notes being as small as $25. We have 525,000 depositors, most of them people of small means. I do not think you understand our situation.

Mr. Busby. Coming back to the idea that the banking situation would become nation-wide and be consolidated into larger and larger groups and that that is in line with all the other business activities in the country at the present time, can you visualize the situation in regard to the mass of the people when control of banking credits and business has gone into the hands of gigantic holding corporations and into the hands of extensive groups of bank credits and chain store operators and all those things? What will be the situation of the masses at that time?

Mr. Greene. I think it will be better than it is now.

Mr. Busby. Now, coming to the size of a town in which an independent bank could be operated successfully——

Mr. Greene. An independent bank?

Mr. Busby. Yes.

Mr. Greene. You are getting down to the smallest community where you could put a bank? Remember, I am sympathetic with your idea.

Mr. Busby. I have not expressed my idea. I am trying to get yours along certain lines.

Mr. Greene. I think that the system that could afford to go into the smaller community is the branch-banking system and not the group or unit system.

Mr. Busby. Do you think that a town of four or five thousand people could operate an independent bank successfully?

Mr. Greene. Not an independent bank.

Mr. Busby. Do you not think the metropolitan center is especially adapted to your type of banking, whereas the more sparsely settled communities are more adapted to unit banks?

Mr. Greene. No; I do not think so. I think the branch is likely to excel the unit bank by less margin in the congested district than in the other.

Mr. Busby. In my district, there is not a town with 5,000 people in it and yet we have dozens of banks that pay more than 25 per cent on their stock. What kind of argument is this you gentlemen are presenting from the metropolitan centers, when you tell us we can not operate those banks?

Mr. GREENE. For instance, what would the relation of capital and surplus of the bank to its deposits be? You say 25 per cent on the capital. That depends on how much surplus there is.

Mr. BUSBY. I can only answer that by saying we have had but 34 bank failures in the last 10 years out of some three hundred odd banks in Mississippi. The relation is such that they appear to be thoroughly sound and that is all that can be required.

Mr. GREENE. I think that is a splendid record.

Mr. BUSBY. And yet the argument you make coming from metropolitan centers, would put every bank in my district into a branch. I see the physical facts that refute your statements and I do not believe them for that reason. I am bringing you concrete instances so you may get my point of view.

Mr. GREENE. I never want to see them in one banking system, but assume the banks became the branches of five branch banking systems, operated from the head office in the largest metropolis in your State. I say this, that given those same banks and putting them into competing branch systems and then operating——

Mr. BUSBY. Would they develop the communities in small towns with the same sympathy and feeling that they have built those towns to their present situation?

Mr. GREENE. I think more so. Why, in Lorain, are we lending 65 per cent more than our total deposits? It is because we have other places where the reverse is true.

Mr. BUSBY. I can answer that by saying I imagine you are lending it to well-established individuals with well-established lines of credit, and you are not developing any new lines of credit ab initio.

Mr. GREENE. We would not lend to anybody without proper security.

Mr. BUSBY. Now, I want to read to you from an ad that is in the American Bankers' Journal on page 1080. It reads as follows:

> If there is one inspiring element more noticeable than another in present-day business, which lifts it to a more human plane, it is the element of sport. Not sport as a recreation, diversion, or pastime, but sport as a game. The human game of building men and things to the service of man.
>
> Ask any successful business man the game he likes best. Invariably the answer is, "My business." He is playing the game. No little white ball holds his eye so intently; no gun or rod, blue water or trackless sky, call to him so deeply, mentally, or physically. The records he breaks are those set by his budget: Costs, sales, inventory, turnover; his medals, profits, and the knowledge that he has played the game well.
>
> It's a great game, business. Some weaken, but the game goes on.

Now, that is the position of the big banker, is it not?

Mr. SEIBERLING. You might tell him the story of what you did with Lorain after the cyclone.

Mr. BUSBY. I want to reach these gentlemen who believe that the whole banking business of the country should be tied in systems reaching from coast to coast.

Mr. GREENE. I am opposed to that strongly.

Mr. BUSBY. You intimated that at the crossroads workmen settle and place their money in the banks and kept it there for awhile and the rich man spends his money. One is holding on to his finances securely and the other is playing this game.

Mr. GREENE. Let me tell you exactly what I meant. We make thousands of real-estate loans, mostly to poor people on their homes, every year. Now, which is the better loan—$25,000 loaned on a $75,000 home to the rich man, or five loans of $5,000 each to working men on their homes?

Mr. BUSBY. There is less margin, perhaps, taking the hazard into consideration, comparing one with the other, to make the large one instead of the smaller ones. That is not the answer you expected, is it?

Mr. GREENE. No; it is not.

Mr. BUSBY. I think I am reasonable in giving it. I have had enough experience in farm loans to know that it was a mistake to increase the loaning limit of the farm loan boards to $25,000 because, instead of loaning $500 or $1,000 to men who wanted to invest it in homes, they turned around and began lending $25,000 to real-estate promoters who represented they had property valued at $60,000 when, as a matter of fact, the value was not there.

Mr. GREENE. I do not think we see, ultimately, the same——

Mr. BUSBY. I am not quarrelling with the big institutions, but I know this, that there is not a town in my district nor in anybody else's district that was not made a town except by the efforts of independent merchants going into business there and other merchants coming in when the center grew to be more attractive to trade, and all of them operating together and offering places for trade and places where people could supply their wants in a mercantile way and by these folks paying taxes and building up the community, with local banks joining them at the proper period of development and supplying credit to those that needed credit and were worthy of credit, and I know when you syphon the life out of those places through chain stores or any other system that removes the management of those stores or banks or whatever they may be from that community, you are going to take the life out of that place. I am not speaking about the banks only, but about anything involved in the economic situation. I can not see the necessity for a two billion banking corporation to develop the country for the use and happiness of the mass of people that makes the country.

Mr. GREENE. Of course, there are territories where $2,000,000,000-banks would be absolutely too big.

Mr. BUSBY. I am for the $2,000,000,000-bank, provided it keeps its hands off the places that are properly supplied in a credit way by local investments in banking.

Mr. GREENE. That is what we do. In a town where there are half a dozen banks and branches of our bank, why do they choose to do business with us?

Mr. BUSBY. There are two things. The taxing power is the power to destroy and money certainly does receive the call in places where you place it. People do not stop to analyze the effect that is going to be brought about in their community or any place else. When the larger amount of money is available from any source, they go to the money. Ten years may point us to what was the right way back in 1930. We can not tell now. That is all I have, Mr. Chairman.

The CHAIRMAN. Are you placing in the record a statement of the condition of your bank with its officers, also the geographical location of your shareholders?

Mr. GREENE. I have not, but will be glad to do so now.

The CHAIRMAN. The statements referred to will be inserted at this point.

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

Condensed statement of condition of Cleveland Trust Co., March 27, 1930

RESOURCES

Cash on hand and in banks	$30, 959, 654. 31
United States, State, municipal, and other bonds and investments	34, 917, 232. 15
Loans, discounts, and advances	233, 041, 035. 28
Real estate and banking houses	6, 999, 245. 05
Interest and earnings accrued and other resources	2, 151, 882. 17
Customers' liability on letters of credit and acceptances executed by this bank	8, 438, 963. 29
Total	316, 508, 012. 25

LIABILITIES

Capital stock	13, 800, 000. 00
Surplus and undivided profits	12, 756, 495. 70
Reserve for taxes, interest, etc	2, 287, 558. 58
Dividend payable, Apr. 1, 1930	414, 000. 00
Deposits	278, 108, 872. 46
Other liabilities	702, 122. 22
Letters of credit and acceptances executed for customers	8, 438, 963. 29
Total	316, 508, 012. 25

CLEVELAND TRUST CO. OFFICERS

President, Harris Creech.

Executive committee: The president; chairman, E. B. Greene; A. L. Assmus, vice president; Leonard P. Ayres, vice president; I. F. Freiberger, vice president; John M. Gundry, vice president; F. H. Hobson, vice president; H. D. King, secretary; A. R. Horr, vice president; A. F. Humel, vice president; Henry W. Stetcher, vice president.

Vice presidents: H. H. Allyn, Edwin Baxter, J. R. Cotabish, E. S. Curtiss, John T. Feighan, W. F. Finley, Fred J. Greiner, F. H. Houghton, Henry Kiefer, A. A. McCaslin, R. A. Malm, E. L. Mason, E. B. Merrell, George F. Schulze, C. W. Stansbury, P. T. White.

Treasurer, J. W. Woodburn.

Comptroller, A. A. Denison.

Trust officers: Ralph McOuat, E. B. Roberts, H. S. Yenne.

Assistant vice presidents: George C. Beck, E. W. Burdik, Homer D. Cozad, E. J. Franke, Elmer C. Gehring, J. H. L. Janson, Tracy E. Herrick, W. W. Horner, P. S. Kingsbury, W. F. Kyle, I. I. Sperling, R. T. White.

Assistant secretaries: H. F. Brandt, Harold Busch, J. F. L. Fitzgerald, H. E. Husted, M. J. Ludwig, E. V. Newton, O. L. Rieder, W. E. Shepherd.

Assistant treasurers: R. M. Bourne, C. A. Brown, M. K. Ford, Frank E. Gibson, jr., W. S. Goff, E. C. Heil, P. J. Huegle, J. H. Kapl, M. W. Mountcastle, George F. Pryor, Lorenz E. Stockhaus, John R. Todd, Harvey J. Webster, Walter T. Young.

Assistant trust officers:. F. J. Haffner, Howard W. Holtz, John S. Lucas, A. J. Perfler, Henry Pirtle, S. A. Pritchard, J. J. Schwitz, Erwin W. Senghas, H. M. Sheeler, A. A. Welsh.

Assistant to the president, Lillian E. Oakley.

Directors: Charles E. Adams, Edward R. Alexander, Horace Andrews, Herman C. Baehr, Newton D. Baker, Robert F. Berwald, Samuel C. Blake, B. P. Bole Chester, C. Bolton, Newell C. Bolton, N. H. Boynton, J. C. Brooks, Fayette Brown, George H. Brown, F. H. Chapin, Jacob D. Cox, jr., Harris Creech, Benedict Crowell, C. S. Eaton, Joseph O. Eaton, J. B. Fay, Horatio Ford, R. J. Frackelton, Charles D. Gentsch, E. B. Greene, John M. Gundry, Salmon P. Halle, A. F. Humel, Frank D. Johnson, Thomas H. Jones, George Q. Keeley, Amos B. McNairy, M. J. Mandelbaum, George A. Martin, S. Livingston Mather, Walter C. Merrick, Severance A. Millikin, John E. Mroley, H. C. Osborn, Charles Lathrop Pack, Henry F. Pope, W. H. Prescott, F. W. Ramsey, W. L. Robison, F. J. Roehl, William A. Rounds, O. A. Schuele, F. R. Scofield, F. A. Scott, John L. Severance, Belden Seymour, Franklin G. Smith, J. A. Smith, Henry W. Stecher, Ambrose Swasey, Amos Burt Thomspon, Charles F. Thwing, B. G. Tremaine, Jr., C. G. Watkins.

GEOGRAPHIC LOCATION OF STOCKHOLDERS, MAY 29, 1930

	Number
Greater Cleveland	1, 852
Ohio, excluding greater Cleveland	234
States, excluding Ohio:	
Alabama	2
Arkansas	1
California	31
Colorado	1
Connecticut	11
Florida	9
Illinois	18
Indiana	1
Iowa	1
Kentucky	1
Louisiana	1
Maryland	3
Massachusetts	12
Michigan	14
Minnesota	4
New Jersey	10
New York State	21
New York City	41
North Carolina	1
Oklahoma	2
Pennsylvania	21
Rhode Island	1
South Carolina	4
Texas	1
Viriginia	3
West Virginia	3
Wisconsin	4
District of Columbia	4
Hawaii	1
Total	227
Foreign—Canada	2
Total	2, 315

The CHAIRMAN. I would like to ask you what authority your branch managers have in agricultural loans?

Mr. GREENE. I am glad you asked me that question. Our branch managers are all rated according to their experience and ability and are given authority, according to our standard, to lend anywhere from $250 to $5,000 on their own authority. They are all connected by phone with our branch managing offices and if they want to go above that, they get approval by telephone or in writing to go above that.

Now, on collateral loans, of course, years ago we did not get much demand for collateral loans from the branches. That has been increasing. We furnish every office with a list of the collateral they are likely to be offered with out rate per share on that collateral and with our indication as to how we grade it; in other words, whether it is to be accepted freely in lagre amounts or whether it should be held down. It is according to the intrinsic value of the security and I described, in my statement, the real estate loans.

The CHAIRMAN. I recognize in the development of your branches, in building up the Cleveland Trust Co., that you have done quite an unusual thing; I recognize Cleveland is quite an unusual city, independent almost of the rest of the United States; in other words, Cleveland has been built up by its own people industrially and the banks have been a great factor in building up Cleveland independently of New York and other big cities.

I recognize in many years past you have taken care of the market and sold all your own securities and they have been known as Cleveland securities. In that respect I recognize the fact that your institution has been built up as a service institution. I also recognize the fact that other communities and other people handling our branch institutions might not take the same interest in building up the immediate locality that you have. You recognize that, of course, yourself, do you not?

Mr. GREENE. I do, except I have seen banks that did not have that policy adopt ours because it means getting the good will of the community. If you have 525,000 depositors in a community of a million and a quarter, you have the good will of that community.

The CHAIRMAN. In other words, there is a spirit of cooperation and pride in Cleveland that exists in your banking institution that probably does not exist in many other places in the United States.

Mr. GREENE. I would not be competent to say that. It is a semipublic institution.

The CHAIRMAN. I think you are too modest to say that, but I think it is generally recognized that that is true. The same incentive might not exist in other institutions to do that; in other words, they might be more mercenary and take funds originating in a community and transfer them to other sections of the country where they can obtain higher interest rates.

You see no possibility, then, in the development of branch banking in the United States, of a centralized control from New York.

Mr. GREENE. Now, we are talking about the ultimate?

The CHAIRMAN. Yes.

Mr. GREENE. I think you will have branches that will have home offices in other cities. I think you will have systems with their headquarters in Chicago, San Francisco, New Orleans and Atlanta as well as other places; in other words, they might have their offices in New York, but I would hope that their home or principal offices would not all be in one city of the country. I am sure in Canada there are some that have more offices in Toronto than in Montreal.

The CHAIRMAN. Practically all of the heads of groups that have appeared before the committee have recognized that if they were permitted to do a branch banking business they would change overnight and get into branch banking. I recall Mr. Rand of Buffalo testifying that he recognized the fact that his head office, as far as he was concerned, would remain in Buffalo; that they would take over or had taken over an institution in New York City to take care of the customers that they might lose by reason of consolidations and moving to New York. His idea was that, independently of the groups the banks in the country could be managed just as well from outside of New York City as in New York City. Do you think that is possible under the branch system?

Mr. GREENE. Yes, sir.

The CHAIRMAN. You do not see any danger of the control of your banks, once built up into a very large system, getting into the hands of New York—that New York might want to gain control of your institution?

Mr. GREENE. I think as long as there are competing branch systems that if a bad policy is inaugurated in one system, it will lead to the lessening of business in that institution and the building up of another. You are going to have the same control by good will that you have now, whether they are larger units or smaller. However, I think some of them will make a specialty of the Middle West or the far West or the South and maintain their offices there and there will be that same spirit of the locality, except the locality will be bigger.

The CHAIRMAN. You suggested a moment ago something about the impossibility of the acquisition by a group such as I have described, and the maintaining of their hold on the banking business of a community; that if they did not serve the interests of that community a new institution would spring up. Take, for instance, your own situation in Cleveland: Suppose the control of your institution was acquired by a group outside of Cleveland that did not have the same interest in Cleveland that you and your associates have, and you started out to build up an independent unit. You would have some difficulty in meeting the competition of that group, would you not?

Mr. GREENE. You would have for a time, but would it not be more likely that you would go over to a competitive group who would have a policy of developing the Cleveland district where you knew that would be enforced? The fear that exists, it seems to me, is the fear of monopoly. It is not the fear of bigger groups. It is the fear of monopoly. There should never be a monopoly. I think it would be impossible and very unlikely to happen.

The CHAIRMAN. I think that is all, and we thank you very much, Mr. GREENE.

(Whereupon, at 1.15 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS

The hearing was resumed at 2.30 o'clock, p. m., at the conclusion of the recess.

The CHAIRMAN. The committee will come to order. We have with us this afternoon Mr. Robert V. Fleming, president of the Riggs National Bank of Washington. We will be very glad to hear from you Mr. Fleming, on the subject of branch, chain, and group banking.

STATEMENT OF ROBERT V. FLEMING, PRESIDENT OF THE RIGGS NATIONAL BANK OF WASHINGTON, D. C.

Mr. FLEMING. Mr. Chairman and gentlemen of the committee, I should like, first, to present to the committee a brief statement which pertains mostly to our own experience within the District of Columbia and then I shall touch a little beyond that.

The CHAIRMAN. Proceed in your own way.

Mr. FLEMING. The Riggs National Bank had, as of the call of March 27, 1930, capital of $3,000,000, surplus and undivided profits of $3,796,300, and total resources of $57,011,200. It has in operation six branches within the District of Columbia.

Prior to the Millspaugh Act of 1922, there were no restrictions upon the opening of banks and the establishment of branches within the District of Columbia. The Comptroller of the Currency was charged with the duty of supervision over all banks here, including those chartered under State law, those under the laws of the District of Columbia, as well as those under the national-banking laws. Banks were chartered in Arizona, Virginia, West Virginia, and other States and opened up for business in the District of Columbia. Some of these banks, under the authority of their charter and without reference to the Comptroller of the Currency, established branches in the District of Columbia. In this manner there grew up an unsatisfactory banking condition in the District on account of a large number of small banks operating without having been compelled to submit to the condition precedent to Government investigation and approval, as is customary in the organization of banking institutions.

In order to prevent the further development of this undesirable situation, Congress enacted the so-called Millspaugh Act in 1922, which provided that no corporation could engage in the banking business in the District of Columbia or establish a branch therein without first having the approval and consent of the Comptroller of the Currency. This gave to the Government of the United States the veto power over the establishment of any banking institutions and new branches in the District of Columbia, as well as the power to permit the operation of such new banks and branches as might meet his approval.

There are 40 banks now operating in the District of Columbia, 12 of which have one or more branches in operation. The aggregate deposits of all of these banks are $256,871,000 as of March 27, 1930, $48,664,000 of which are in the Riggs National Bank, or about 19 per cent. There is attached hereto, and marked "Exhibit A," a statistical statement comparing the growth of bank deposits in the District of Columbia during the past five years, distinguishing banks with branches from those without. It will be observed that branch banking in the District of Columbia has developed very slowly and conservatively, there being only 24 branches in the entire District and no bank having in excess of six branches—the Riggs National Bank operating the latter number.

Mr. Chairman and gentlemen of the committee, if you will turn to the first page of the exhibit, taking the comptroller's call of March 27, 1930, it will be observed that the percentage of the Riggs Bank's deposits compared to the deposits of the national banks' deposits was 35.2 per cent and the percentage of the Riggs deposits to deposits of all banks was 18.9 per cent, or practically 19 per cent.

Taking the comptroller's call of five years ago—April 6, 1925—the total deposits of all banks in the District of Columbia were $232,-677,447.17. At that time the Riggs deposits were 28.6 per cent of the deposits of national banks, and the percentage of the Riggs deposits to all banks was 15.1 per cent. The gain in deposits over the period of five years between the two calls for all banks was $24,-193,473.76, of which the Riggs gained $13,624,301.29 and the national banks $15,767,555.96.

Mr. Wingo. Did you give the percentage of gain there?

Mr. Fleming. The percentage of gain of the Riggs National Bank was 38.9 per cent; the percentage of gain of the national banks was

12.8 per cent and the percentage of gain of all banks was 10.4 per cent.

Mr. WINGO. I see that now. I was looking at the wrong sheet.

Mr. FLEMING. Turning to the next sheet, you will find, as of the call of April 6, 1925, there were 10 banks having branches as of that date. They had 20 branches and their deposits were $113,484,613.15.

Between April 6, 1925, and March 27, 1930, two additional banks took out branches or acquired branches in one way or another, and to these I have added the deposits of banks with branches in existence April 6, 1925, and later were consolidated with banks in the above group and became branches.

As of March 27, 1930, there were 12 banks having 24 branches with total deposits of $146,213,468, a gain for the banks having branches for the 5-year period of $13,606,363.70.

There were 28 banks not having branches, with total deposits as of April 6, 1925, of $100,070,342.87, and with total deposits as of March 27, 1930, of $110,657,452.93, representing a gain of banks not having branches during the five years of $10,587,100.06.

We will observe that the percentage of gain of banks with branches to all banks was 56.2 pef cent and the percentage of gain of banks without branches to all banks was 43.8 per cent.

(The figures referred to are printed in full at the end of Mr. Fleming's opening statement.)

METHODS OF ESTABLISHMENT OF THE RIGGS NATIONAL BANK BRANCHES

All of the branches of the Riggs National Bank are what are known as statutory branches, that is to say, branches which have been established under specific statutory authority under the national banking laws. The first three branches acquired by the Riggs National Bank in 1922 were the result of consolidation with the Hamilton National Bank. The Hamilton National Bank had three branches, one at Dupont Circle, one at Fourteenth Street and Park Road, and the other at Seventh and Eye Streets, N. W., which branches had been established prior to its conversion into a national bank, the Hamilton Savings Bank having been originally chartered under the laws of Arizona. At the time of its conversion into a national bank, it elected, under the authority of the act of 1865, to retain these three branches, and they became branches of the Riggs National Bank under terms of the consolidation act of 1918. I may add that the Riggs National Bank took over the Hamilton bank in order to assist in clearing up the bad banking situation in the District of Columbia.

The branch at Eighteenth Street and Columbia Road, known as the Northwest Branch, was acquired in 1925, through a consolidation with the Northwest National Bank, which at the time had one branch at that place, established when it was a State bank, known as the Northwest Savings Bank, organized under the laws of Arizona, and which it elected to retain under the act of 1865, upon being converted into a national bank. This branch thereafter became a branch of the Riggs National Bank by virtue of proceedings under the consolidation act of 1918.

The two remaining branches were acquired through the consolidation of the Riggs National Bank and the Farmers & Mechanics National Bank of Georgetown. The latter bank had one branch at

Wisconsin Avenue and Warren Street, established under the authority of the McFadden Act of 1927, and upon the consolidation, this branch was acquired by the Riggs National Bank under the authority of the same act. Simultaneously with the act of consolidation with the Farmers & Mechanics National Bank, the Comptroller of the Currency authorized the Riggs National Bank, under authority of the McFadden Act, to establish a branch at Wisconsin Avenue and M Street, the same being the former head office of the Farmers & Mechanics National Bank. It is seen, therefore, that the Riggs National Bank acquired all of its branches, so far as their legal status is concerned, either by virtue of the national bank consolidation act of 1918 or under the McFadden Act, only one branch coming into the latter category.

BRANCH OPERATIONS

The Riggs National Bank conducts a metropolitan banking service, that is to say, it carries on all of the departments of banking ordinarily found in large city banks. It has a commercial banking department, a savings department, a foreign department, a credit department, a trust department, and a safe-deposit department. With the exception of the trust department, which is maintained at the main office, 1503 Pennsylvania Avenue NW., all of these departments are maintained at both the main office and the branches, with the further exception of our Seventh Street branch, where we do not conduct a safe-deposit department.

Although the Riggs National Bank is engaged in what may be called city branch banking, as contrasted with the extension of branches into outlying cities, it has nevertheless maintained the local contact which existed in the bank taken over at the time it became a branch. The one exception is that of the Hamilton bank, the management of which had lost the local confidence necessary to maintain it. This local contact we regard as of the greatest importance to the success of branch banking, and good business practice alone is a sufficient reason to preserve it.

The Riggs National Bank has an advisory board of the branches, and upon this board are the principal members of the boards of directors of the banks which were converted into branches, all of those serving being shareholders of the bank. In the case of the Farmers & Mechanics branches, the entire board of directors of the bank became members of the advisory board. This board has 33 members, five of whom are officers of the Riggs National Bank and it meets once each quarter at the main office of the bank, at which time all of the operations of the bank, which includes the operations of each branch, are carefully reviewed. Respective executive committees of the advisory board meet weekly at the branches, and, in addition, that part of the advisory board constituting the former directors of the Farmers & Mechanics National Bank meets monthly at that branch. The advisory board performs the same functions with respect to the branches that it performed with respect to the pre-existing banks, except that it recommends policies and procedure, instead of initiating them. Its members are keenly interested in the work of the branches, attend meetings regularly, and their counsel and advice are of invaluable assistance to the bank in dealing with the multitude of local questions which arise.

It has been our policy to carefully select our branch managers, and to give them rather wide discretion in the operation of the branch. Only matters of importance are referred to the main office, minor matters being handled by two liaison officers from the main office, who are in daily contact with each branch. In the making of loans, branch managers are authorized to make loans up to $25,000 to a single customer upon listed collateral, and in some cases up to $5,000 on an unsecured note. This latter authority varies from $1,000 to $5,000 according to the branch and the needs of the community which it serves. In connection with applications for loans beyond these amounts, the branch manager appears before the loan committee at the main office and presents the case to that committee for determination. Each branch manager is required to maintain his own credit files and is charged with the responsibility of following the loans made at his branch. We have found that the discretion and authority granted have been sufficient to take care of the ordinary operations at our branches which are, in the main, showing steady increases in deposits and in the number of customers served. This method of making loans applies, in the main, to loans of new customers, as we have numerous lines of credit extended to the old customers of the bank, in some cases for large sums, which have been approved by our loan committee and which come up from time to time for redetermination of the line of credit. In some instances, the line of credit is reconfirmed without reference to the customer; in others it may be reduced or withdrawn. This system enables us to give prompt loan service to many of our larger customers who find it more convenient to deal at one of our branches.

Our branch in Georgetown, at Wisconsin Avenue and M Streets, formerly the location of the Farmers & Mechanics National Bank, has many aspects of an out-of-town branch. This branch was origin-nally established in 1812 and was in continuous operation in Georgetown up to the time we took it over.

Georgetown still maintains its separate and local individuality due to the fact that for more than 120 years it was a separate municipality. In order to indicate the success of our operations there, the net profits of the bank for the last full year of its operation as an independent bank—that is, the year ending December 31, 1927, were $28,825.34, whereas for the year ended December 31, 1929, the first year of operation as branches, analysis of the earnings discloses net profits of $58,371.77, which included many expenses incident to consolidation, such as the cost of departmental adjustments, stationery, and new forms, and so forth. In other words, we are enlarging the banking business at that point without losing the local contact, and we have been able to cut down considerable expense in overhead.

We have found in our experience that branch banking is economically sound and successful as a business operation. It has also met with popular approval, the Riggs National Bank having to-day 46,251 accounts, commercial and savings, 24,748 of which are in the branches; while as of December 31, 1922, the close of the first year we began operations as a branch banking institution, we had on our books a total of 21,915 accounts, of which 5,687 were in the branches.

THE WASHINGTON TRADE AREA

I have purposely confined my remarks to the operations and experience of the Riggs National Bank in order to bring before your committee a concrete example of branch banking operating in a geographical territory solely under the political jurisdiction of the Congress of the United States. The District of Columbia is the smallest political unit in the country by virtue of the lines which were established when the Federal Government was first set up. As the seat of the Capitol of the Nation, a large metropolitan city has grown up within it and has overflowed into the surrounding area of Maryland and Virginia. Under similar circumstances in the various States, cities of corresponding and lesser size have from time to time enlarged their political limits to embrace suburban districts. This can not be done by the city of Washington. As a consequence, we seem destined to have a great business center in the city of Washington, supported by many residents in nearby suburbs outside of the District.

This all might be called the metropolitan area of the city of Washington, or Greater Washington, and its banking business would normally flow into Washington. Without therefore bring up for the moment the question of trade-area branch banking in the sense suggested by the Comptroller of the Currency, but looking at the situation from the standpoint of the Riggs National Bank and other banks similarly situated in the District of Columbia, under any amendment extending the power of national banks to have branches beyond the city in which they may be situated, it would be a natural and easy progressive development to extend branches from banks in the District of Columbia into these suburban communities.

For example, in Maryland there are Bethesda, Bowie, Hyattsville, Kensington, Rockville, Mt. Rainier, Seat Pleasant, Silver Spring, Takoma Park, and Sandy Spring; and in Virginia there are Alexandria, Arlington, Ballston, Cherrydale, Clarendon, Falls Church, Rosslyn, Fairfax, and Herndon. These aggregate a total of 19 places around the District of Columbia doing their principal business in Washington, and which could be served with branches of Washington banks with the same facility of operation as those branches now situated in the District of Columbia. This extension I would not call trade area branch banking, but rather the same type of branch banking which exists in a number of metropolitan cities like New Orleans, Atlanta, Cleveland, Detroit, Cincinnati, Los Angeles, and so on, where national banks now have branches.

Coming now to the larger question which has been so ably discussed before this committee, that of a wider extension of branches into the rural districts, it is my opinion that a sound system of branch banking could operate from Washington within an area of some 50 miles, which would take in (in Maryland) Frederick, Gaithersburg, La Plata, Laurel, and Upper Marlboro, and (in Virginia) Fredericksburg, Leesburg, Manassas, and Warrenton. It must be recognized, however, that in each of these towns there would be some overlapping of trade areas between Washington and Baltimore, on the one hand, and between Washington and Richmond on the other, because the business of those places is somewhat divided between the cities mentioned.

I may say, in conclusion, that the Riggs National Bank does not now contemplate an entry into group banking, and I know of no instance of group banking operation from the District of Columbia. In this connection, however, I wish to direct the attention of the committee to the existence of a large number of small local banks situated in the 19 little towns mentioned, making a fringe around the city of Washington. There exists the possibility in the modern development of group banking that some group operating outside of Washington might begin to pick up these banks, thus bringing into the metropolitan area of Washington the competition of outside banking. In such a case it would no doubt be necessary for their own protection for Washington banks to resort also to group banking. I have no criticism to make of group banking as a business proposition, but having been an officer of a very conservative banking institution for the past 14 years, during the last 8 of which we have operated branches, I should prefer to see banking in the District of Columbia develop under a more liberal branch banking law than be compelled to resort for self-protection to the new and less-known field of group banking.

This concludes my formal statement to the committee, and I shall be glad now to respond to the best of my ability to any questions which you may desire to ask.

(The figures referred to previously in Mr. Fleming's statement are printed in full, as follows:)

Exhibit A

Deposits incident to comparison of banks having branches five years ago

Comptroller's call Mar. 27, 1930:	
Riggs National Bank	$48, 664, 702. 21
National banks, District of Columbia	138, 218, 925. 17
All banks, District of Columbia	256, 870, 920. 93
Percentage of Riggs deposits to national banks	35. 2
Percentage of Riggs deposits to all banks	18. 9
Comptroller's call Apr. 6, 1925:	
Riggs National Bank	$35, 040, 400. 92
National banks, District of Columbia	122, 451, 369. 21
All banks, District of Columbia	232, 677, 447. 17
Percentage of Riggs deposits to national banks	28. 6
Percentage of Riggs deposits to all banks	15. 1
Increase in deposits over period of five years:	
Riggs National Bank	$13, 624, 301. 29
National banks , District of Columbia	15, 767, 555. 96
All banks, District of Columbia	24, 193, 473. 76
Percentage of increase in five years:	
Riggs National Bank	38. 9
National banks, District of Columbia	12. 8
All banks, District of Columbia	10. 4

Comparative position of deposits of banks having branches in District of Columbia

	Comptroller's call Apr. 6, 1925		Comptroller's call Mar. 27, 1930	
	Number of branches	Deposits	Number of branches	Deposits
10 banks having branches as of date of comptroller's call, Apr. 6, 1925	20	$113, 484, 613. 15		
2 banks having branches as of date of comptroller's call, Mar. 27, 1930, acquired since Apr. 6, 1925	0	13, 823, 644. 94		
12 Total	20	127, 308, 258. 09	24	$146, 213, 468. 00
To which is added, for comparative purpose, the deposits of banks with branches in existence Apr. 6, 1925, and later were consolidated with banks in above group and became branches		5, 298, 846. 21		132, 607, 104. 30
Gain of banks having branches during five years				13, 606, 363. 70
28 banks not having branches		100, 070, 342. 87		110, 657, 452. 93
Gain of banks not having branches during five years				10, 587, 110. 06
Gain of all banks during five years				24, 193, 473. 76
Percentage of gain of banks with branches to all banks				56. 2
Percentage of gain of banks without branches to all banks				43. 8

The CHAIRMAN. As you know, Mr. Fleming, the committee has been engaged in the study of the banking situation and various suggestions and recommendations have been made, the most pertinent of which is that recommendation made by the Comptroller of the Currency in which he recommends the extension of branch banking to trade areas. What do you think of that plan?

Mr. FLEMING. I think it is a very logical development. I think we have a situation in this country generally where conditions very similar to those outlined at the close of my formal statement obtain, and if banks are not permitted to go further with branches they will form groups in self-protection on account of the additional service the public demands.

The CHAIRMAN. You appreciate the difficulties in defining trade areas?

Mr. FLEMING. Yes, sir.

The CHAIRMAN. There has been some suggestion that this be left to a committee composed of the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Comptroller of the Currency, to fix these areas from time to time. Other suggestions have been made that Congress fix by law these areas and there have been other more indefinite suggestions. Which of those plans do you think would be advisable in case a trade-area plan is adopted?

Mr. FLEMING. Following the results of the divisions of the Federal-reserve districts, it would seem to me that a committee would probably be able to fix those areas more readily than if Congress attempted to do that.

The CHAIRMAN. Members of groups and representatives of branch-banking institutions that have appeared before us have intimated that the day of the unit bank has passed. Do you agree with that?

Mr. FLEMING. I do. I do not think there is any question about that.

The CHAIRMAN. You think there is a new condition arising where the small country and suburban towns, such as you have enumerated, could be best served by a branch system?

Mr. FLEMING. I do, without question.

The CHAIRMAN. I infer, from what you said, that you prefer a system of branch banking rather than group banking?

Mr. FLEMING. Yes, sir. I think it is preferable and adds better service as well as greater strength.

The CHAIRMAN. Would you be in favor of nation-wide branch banking?

Mr. FLEMING. Not to start with.

The CHAIRMAN. But ultimately, you feel, with the others who have so expressed themselves, that we will have nation-wide banking?

Mr. FLEMING. I think that is something that has to develop. We see nation-wide chain stores and nation-wide organizations now operating throughout the country. It is perfectly possible it will develop in banking the same way. However, I think it is always better to crawl before we attempt to walk.

The CHAIRMAN. What in your judgment has caused this change?

Mr. FLEMING. It costs more to-day to operate a bank than it did a great many years ago. There are many features that enter into that and it has been pretty difficult for the small bank to operate at a profit from direct banking operations.

In addition to that, we have a great many chain stores coming in and absorbing the corner grocery and drug store, etc., and deposits of the smaller banks have dwindled.

The CHAIRMAN. The concentration in industry, as well, has affected the situation?

Mr. FLEMING. Yes, sir; and it has gone into the larger centers, and I think that has made the situation more difficult for the small-unit bank, particularly, to operate, as indicated by the number of failures; and I think the fact you can operate a branch so much more economically than you can a single small-unit bank has had a tendency to make the stockholders of those small banks glad to become members of a group, or to become a branch of a larger organization.

The CHAIRMAN. Do you think there is any danger in this development of nation-wide branch banking producing a concentration of ownership in New York City of the banking assets of the country?

Mr. FLEMING. I do not believe it will develop that way. I rather look for it to develop into separate areas.

The CHAIRMAN. You recognize, along with stability, the change in the type of holders of banking stocks, do you not?

Mr. FLEMING. In just what particular do you mean?

The CHAIRMAN. I mean by that, more and more of late there is a different class of people buying bank stocks and they are dealt in more on the market. They are purchased without any thought in mind that the buyers are going to be a part of the institution in the direction of the management?

Mr. FLEMING. I think there has been a tendency in that direction in the larger banks.

The CHAIRMAN. Do you think that it is a dangerous tendency that bank stocks should be dealt in in that way, to the extent they are?

Mr. FLEMING. Only if the shares should get into the hands of a few.

The CHAIRMAN. Do you think it is possible?

Mr. FLEMING. It is possible where they are listed on exchanges. For instance, group stocks are listed and dealt in. There is a tendency to buy them purely for speculation rather than because of any interest in the community.

The CHAIRMAN. What is your experience in regard to the percentage of deposits and loans in the different localities where you have your branches? Do your loans in those localities exceed your deposits?

Mr. FLEMING. No; in practically every case the loans do not take up the loanable funds of the branch.

The CHAIRMAN. Of course you have a different situation than prevails anywhere else in the country because of the lack of industry in this community?

Mr. FLEMING. That is correct. It is true in every branch—in every one except one—we have had healthy increases in deposits and also in the number of customers. In most every case, however, the branch has money on deposit with the main office.

Mr. LUCE. I would call your attention, Mr. Fleming, to a matter on which I asked the judgment of the witness who was here this morning, in line with what the chairman has just inquired about, as embodied in a prediction I read only last evening in an article on investment trusts, the writer believing that no long period would elapse before individual holdings in the stock of national banks would disappear and that they would practically be held by investment trusts.

These opportunities in banking have been particularly brought to the attention of the public within the last few years, notably by one or more books, showing what profits have been made. Of course you are more familiar than I am with the very rapid growth of joint investment forms; and I would ask of you, as I did of the gentleman this morning, to tell me, from your practical experience, something about the relation of stock ownership in the conduct of banks, whether the operation of your bank is in any way affected by the ownership of the stock?

Mr. FLEMING. Well, I think all bankers, Mr. Luce, try to get a wide distribution of their stock. They like to get as many people as possible interested in the bank. That seems to be more an intangible than a direct result, as far as benefit is concerned.

Now, as to the activity in the purchase of bank stocks, of course, you realize there was a boom period when everybody was buying securities and where banks were making quite large profits on account of high interest rates, and there was an era of consolidations, and the public took kindly to it, and there was usually a profit on the bank stocks. If we are in what looks now like a low interest period for some time, I doubt if there will be the same activity in buying bank stocks. There has been a decided falling off in consolidations, which had a tendency to boost bank stocks. In our bank, have had no trouble with that. We have had a rather wide distribution of our stock. We have an average holding of 45 or 50 shares per shareholder.

Mr. LUCE. Yet it would seem that the investment trust has come to stay. Hardly a week goes by that I do not receive some solicitation to put some money in this or the other investment trust.

Mr. FLEMING. I do not think they are as popular as they were before the decline of the market in October.

Mr. LUCE. Well, I do not know about that. We expected everything connected with the stock market to become unpopular but within three months the mania for speculation revived.

You used the word "speculation" in this connection. The legitimate investment trusts are not engaged in speculation, but in joint investment and I rather doubt if banking was proportionately less popular than other forms of investment when the crash came.

Mr. FLEMING. Before the decline, banks had passed through two or three years in which they enjoyed large earnings, numerous consolidations took place, and in many cases extra dividends were declared, making these stocks rather attractive for investment. Now the condition is different. The earnings of banks in this low-interest period are not as great as they were during the years preceding the market decline, the yield on bank stocks is low, and I think we have very nearly reached the saturation point in consolidations, particularly large ones. Therefore, I do not think banks stocks will be as attractive in the next two or three years as they were during the preceding three years.

Mr. LUCE. You do not include the formation of groups under your word "consolidation," I take it?

Mr. FLEMING. No, I do not.

Mr. LUCE. That apparently is attracting a great amount of interest and money. I read, within a few days, of 50 Pennsylvania banks going into a chain, and the well-informed witness this morning said he had abandoned any attempt to get figures as to the total number of banks in chains and groups, because the next day he found it was not accurate.

Mr. FLEMING. I think that may be true as far as the formation of groups is concerned, but I do not believe the general public are buying group stocks as actively as they did. We do not get the inquiries we did some four or five months ago.

Mr. LUCE. Have you any knowledge of any attempt to buy your stocks by investment trusts?

Mr. FLEMING. None that I know of. Oh, there may be two or three hundred shares held by little separate investment trusts of local origin, but none by national investment trusts or groups. There has been no attempt so far that I know of.

Mr. LUCE. It was brought out in the course of the inquiry this morning that in Canada at least one bank has—I am anticipating Mr. Fenn's inquiry; it was his contribution, for which I am grateful—one of the large banks has the power to pick and choose those who would be stockholders.

Mr. FENN. I made inquiry as to whether that custom has been given up. The Bank of Montreal has a provision whereby the directors reserve the right, on the transfer of stock, to approve of the transferee. I made the inquiry as to whether that practice had been abandoned, and I do not think any of us knew. That was the practice at one time.

Mr. FLEMING. I do not know what that practice is, but I do know they have a very peculiar system of transferring their stock.

Mr. FENN. A very difficult system.

Mr. FLEMING. Yes, sir; particularly if the stockholder wishes to use the stock as collateral. It makes it a very difficult operation.

Mr. LUCE. That brought to our attention one of the very few suggestions that have been made as to how we can handle group banking if we want to assume that it would be constitutional to do it, as to which I am far from being certain. Could we give national banks the power to select their stockholders? Would it be a wise thing to do in anticipation of possible inroads by investment trusts and all sorts of holding companies, and so forth?

Mr. FLEMING. I think I can answer that question best by expressing my belief that the best-run bank is the bank where the management must hold office by efficiency and not through the domination of one or two interests, and if the bank's officials or directors themselves were to pick the shareholders, you might run into a situation where a group that was not efficient would take control and perpetuate itself through that stock ownership.

Mr. LUCE. It seems every rose has its thorn.

Mr. FLEMING. I mention that because I can see that possibility.

Mr. LUCE. Can you see any other possibility? We have been holding hearings for many days and we would like to get something tangible to operate on.

Mr. FLEMING. I think, as a general proposition, that bankers do not like to see their stocks held either by trust estates or by investment trusts. I think the bankers themselves would like to stay away from them. So, you have a natural resistance on the part of the administration of the bank to start with. I do not know of any method that would be legal by which you could control the stock ownership of a bank.

Mr. LUCE. Then, if this tendency for amalgamation goes on and does go right through the banking field, your fight is going to be like all other enterprises, is it not?

Mr. FLEMING. I do not believe that condition would exist if we could have an enlargement of the branch banking privilege right now. I think that would be the offset. I do not think that any bank, for instance, in a city like Baltimore or Washington would care to be linked in with a national chain of banks or group of banks. I think the large banks themselves would rather be the center or the heart of a branch banking system that could spread out in their own areas, where they could serve their own communities.

Mr. LUCE. Have you read Mr. Anderson's recent discussion of this subject?

Mr. FLEMING. No, sir.

Mr. LUCE. Mr. B. M. Anderson, of the Chase National Bank, within two or three weeks, has come out with a reasoned argument against branch banking by city banks, apparently outside of the city limits, although I am not certain about that. I am curious to get some suggestion as to what is behind the apparently growing opposition of New York banks to branch banking.

Mr. FLEMING. Of course the deposits of the New York banks—the larger ones—are made up to a great extent by deposits of out-of-town correspondents. Possibly there would be a loss in deposits if there should be a decentralization.

Mr. LUCE. If they owned the bank they would have a strangle hold on all the money.

Normally you would think the Chase National Bank would rather own a bank, say, at Flushing—just by way of illustration—than hold the somewhat precarious position of its correspondent.

Mr. FLEMING. Branch banking has been pretty successful within the city limits of New York and I do not see any reason why it would not be just as successful outside of it.

Mr. LUCE. Possibly some of us feel the same way and we wondered why the Chase National Bank should pronounce the other way.

Mr. FLEMING. They have been very successful in their branch operations and I might say, in that connection, that I was very much interested in the report of Mr. Wiggin to his stockholders in 1928, in connection with the merger of the Garfield National Bank. While we did not know it at that time, their branch operations and advisory committees and interlocking of contact men are almost identical with our own system.

Mr. WINGO. I did not catch that.

Mr. FLEMING. I said I was very much interested in the report of Mr. Wiggin made to his shareholders in 1928 where he touched on the merger of the Garfield National Bank with the Chase. It is interesting to observe that their system of advisory committees was very similar to the system that we have in effect at our branches, although we did not know that that was their method at that time.

The CHAIRMAN. Might I suggest to you, Mr. Luce, the fact that one of the subsidiaries of the Chase National Bank in New York owns the American Express Co., which has offices all over the world, comparable to the tellers windows that are proposed to be established by the system of nation-wide branch banking?

Mr. LUCE. That adds to my apprehension of their inconsistency. I do not understand it.

Turning for a moment to one other phase of the local situation, I see that after taking out your banks from the figures in your statement, there remain 39 banks in Washington with an average deposit of $5,300,000. Of course some of the others are sizeable banks, so I take it there must be here in Washington a considerable number of small banks.

Mr. FLEMING. Yes; I thought that might be a natural inquiry. There are 40 banks in the District. There are 8 savings banks where the deposits are under $1,000,000. There are 18 banks (1 trust company, 4 national banks, and 13 savings banks) where the deposits are over a million and under $5,000,000.

There are seven banks (4 national banks, 2 trust companies, and 1 savings bank) where the deposits are over $5,000,000 and under $10,000,000.

There are 7 banks (4 national banks, 3 trust companies, and no savings banks) where the deposits are over $10,000,000.

Mr. LUCE. Are these savings banks doing purely a savings bank business or also a commercial banking business?

Mr. FLEMING. They are doing a general savings and commercial business, both.

Mr. LUCE. Then the word "savings" has no significance?

Mr. FLEMING. I should say the lines are all broken.

Mr. LUCE. In that part of the country from which I come, where mutual savings banks flourish, we have found it expedient to insist upon the segregation of deposits in the matter of our State banks, which we call trust companies, putting them under the same restrictions that the savings banks are under in the matter of the character of investments they may make. We have felt that this was of a vital nature. The witness this morning argued that he saw no reason for any different treatment for different classes of depositors in banks.

Looking at it from the point of view of the depositors, up my way we think the deposits of the poor have a peculiarly sacred nature, if I may use that word, and we try to protect them. Of course, in an institution as large as yours and so well established and so solid, if I may so call it, the need for segregation is not evident, but do you share my apprehension that trouble will come here some time from the failure of following that system we have of giving the savings deposits of the poor a particular protection?

Mr. FLEMING. I think it all comes down to a question of management of the bank. I think practically all good bankers have an eye to the protection of the savings depositors in their banks.

Mr. LUCE. But in the case of failure they do not get any preference.

Mr. FLEMING. Well, I think when a bank is poorly managed and gets in that condition, you have an institution that ought to be closed up and not allowed to go on.

Mr. LUCE. We had in Boston four such trust companies that were closed up, but when they were closed up, the little depositors had the first chance at what assets remained.

Mr. FLEMING. Well, I think it would work an amount of hardship on the larger and stronger institutions if you put some restrictions as to the type of investment in which they have to invest savings. I think good bankers do that anyway. In the savings accounts, you pay a higher rate of interest on the deposits.

Mr. LUCE. But we pass laws not for good banks, but for bad banks.

Mr. FLEMING. I think we should have fewer of these little banks that can not stand the strain.

Mr. FENN. The branches, so-called, of the Riggs Bank are all established under the act of 1922 and the McFadden Act?

Mr. FLEMING. Yes; and in connection with the act of 1865 and the act of 1918 also.

Mr. FENN. That has worked very successfully in the District of Columbia?

Mr. FLEMING. For us; yes.

Mr. FENN. It is rather evident that the McFadden Act was successful in its functioning as far as Washington is concerned and other cities?

Mr. FLEMING. I think that is unquestionably true.

Mr. FENN. Now, you set up or suggested a metropolitan district here, mentioning this town. Why did you eliminate Alexandria?

Mr. FLEMING. I included Alexandria.

Mr. FENN. As I read it here, I thought it was omitted. I wondered why it should be.

Mr. FLEMING. As a matter of fact, Alexandria would be one of the cities that could very proprly be served.

Mr. FENN. You said Fredericksburg——

Mr. FLEMING. I was using Fredericksburg in a secondary sense as a larger trade area.

Mr. FENN. That is all, if Alexandria is included.

Mr. FLEMING. It might be of interest to the committee to know that there are about thirty millions of resources in those 19 little towns.

Mr. FENN. In the extension as you suggest here to these surrounding towns—in fact, you have suggested to us a metropolitan area rather than a trade area; in other words, you would not deem it advisable—and I am not putting words in your mouth—you would not deem it advisable to extend the area of Washington to interfere with Richmond or Baltimore?

Mr. FLEMING. I think——

Mr. FENN. To overlap into them?

Mr. FLEMING. I think there should be some determination there as to which could be better served. I mention in the statement that there would be some overlapping at Fredericksburg and at Frederick, Md., in the Maryland district.

Mr. FENN. I think your suggestion very appropriate both in regard to the working of the McFadden Act in the District of Columbia and your added suggestion in regard to the metropolitan area, that you deem advisable, and it seems to me as if, if we should draw an act, trade area is very difficult to define, whereas metropolitan areas are not so difficult as you stated.

Now, Mr. Luce made the suggestion or made the inquiry as to the stock ownership in banks. I know that you are very well acquainted with bank officers, particularly in the East, in the South, and in the Northeast, as far up probably into New England—perhaps not as much in New England as elsewhere. Do you find that the executive officers of those banks, the men in charge, the men who run the banks, are large owners of the stock?

Mr. FLEMING. In the main, I would say they are not, under present conditions.

Mr. FENN. Are they not employed, and their high salaries or commensurate salaries, paid in accordance with their ability as banking men?

Mr. FLEMING. Yes. I think, of course, all of those gentlemen endeavor to have a substantial holding in their own institutions.

Mr. FENN. Of course.

Mr. FLEMING. But the present heads of the larger institutions are, in the main, men who have come from other sections of the country and have been picked for their ability rather than their ownership of stock.

Mr. FENN. In the city in which I live, Hartford, which has large financial institutions, particularly insurance companies, it is very seldom that the officers of the large insurance companies are large owners of stock. In many instances, in the banks, men come up from the ranks and acquire their stock ownership. Of course it is their own business and they will get all the stock they can, but not enough to control or keep them in their position if they are unfit.

Mr. FLEMING. Of course, I am an advocate of a banker being a trained banker from the start. I think the history of banking has proven that with the intricacies of banking to-day, a man has to be a trained banker in order to head a bank and in order to be successful.

Mr. FENN. But it is not necessary that he control the stock except with the approval of the stockholders and the directors, in order to hold his position?

Mr. FLEMING. No.

Mr. GOODWIN. I have just one or two questions. If I understand your statement correctly, Mr. Fleming, the branches operated and owned by the Riggs National Bank, are the result of consolidations with other banks except one branch bank. So, in the acquirement of these banks, there were no other banks forced out of business?

Mr. FLEMING. No; there was no bank forced out of business. There were two banks where we purchased the entire stock ownership before the consolidation; that is in the case of the Hamilton Savings Bank and the Northwest Savings Bank. They went out of existence and became branches of the Riggs Bank through the subsequent consolidation, under the acts of 1865 and 1922.

Mr. GOODWIN. The banks taken over are maintained as branches thereof?

Mr. FLEMING. Yes, sir.

Mr. GOODWIN. There is just as much competition in the banking business to-day as there was before the consolidations took place?

Mr. FLEMING. I think there is very much better competition than there used to be.

Mr. GOODWIN. Any individual or corporation entitled to and worthy of credit, can obtain credit as easily now as before these consolidations took place and the branches were established?

Mr. FLEMING. I think they can obtain credit more easily and more liberally.

Mr. SEIBERLING. In legislating for the banks of the country, of course, we have to take into consideration the country as a whole.

Mr. FLEMING. Certainly.

Mr. SEIBERLING. And while your plan is admirable for Washington and the vicinity, the metropolitan idea would not serve the territory around St. Paul and Minneapolis, in Wisconsin, Minnesota, or the Dakotas. I understand the principal purpose of the investigation we are making is to devise some scheme by which banking facilities can be given to agricultural States, where so many banks have failed. What plan as to trade areas would you have to suggest as to areas of that kind?

Mr. FLEMING. I do not think I am familiar enough with the territory around Minneapolis to give you an answer.

Mr. SEIBERLING. You can readily see your plan would not serve that territory.

Mr. FLEMING. I see no reason, as a general proposition, why enlarged branch banking authority, allowing banks to go into these different territories to operate branches, would not work as successfully within a certain radius as the group banking which is going on now.

Mr. SEIBERLING. Your thought is that this committee that you referred to would have discretion to limit you here in Washington to a metropolitan district and then expand that district around St. Paul and Minneapolis to take in the agricultural sections?

Mr. FLEMING. Within their discretion—whatever conclusions they arrived at after an investigation.

Mr. SEIBERLING. I believe that is all.

The CHAIRMAN. There is just one more question I want to ask you. It has to do with some things that have been happening in the last year in regard to our whole financial situation and has perhaps some reference to the concentration of funds available for speculation, as evidenced last summer, on the New York market.

Do you think the mixing of short-time funds with long-time funds has anything to do with the furnishing of easy accessiblity to funds with which to speculate in the market? In other words, is there a misuse of long-time and short-time funds in banks or in institutions that furnish credit?

Mr. FLEMING. You have an entirely different structure now of your commercial houses throughout the country than we had 10 or 15 years ago. You now have most of the large concerns that furnish the eligible paper throughout the country that have changed their capital structure into preferred and common stock that may be listed on stock exchanges, and naturally there are more collateral loans in banks now and less purely commercial loans than existed 10 years ago.

The CHAIRMAN. Is not that due somewhat to the operation of the Federal reserve where we drew in funds from the byways and hedges and made them immediately available and liquid, through its operations, and the fact we have time deposits and demand deposits mixed, the whole tending to make liquid all classes of bank funds, so they can be moved into the stock market or into land speculation or any other kind of speculation with greater alacrity than ever before?

Mr. FLEMING. I think the bank conferences held over the country by the different groups of bankers are safeguarding that situation. There has been an educational campaign carried on.

The CHAIRMAN. They are dealing with this subject?

Mr. FLEMING. With the liquidity of the banks. We know that a collateral loan is not liquid.

The CHAIRMAN. The annual reports of the Secretary of the Treasury and the Comptroller of Currency indicate an increasing amount of investment securities in commercial banks throughout the country. It is due to the fact that more of that class of securities is being emitted than heretofore and industry is changing its method of financing from what it previously pursued.

Mr. FLEMING. I think so. One of the difficulties of banks that are members of the Federal reserve system, is to get eligible commercial paper. I know one bank that has gone over the country soliciting purely commercial accounts in order to have paper that is eligible for rediscount.

The CHAIRMAN. You think there is a dearth of eligible paper?

Mr. FLEMING. There is no question about it. In my own bank we carry a very large, what is known as, secondary reserve. In my opinion it should be the first line of reserve. We carry a very large amount of Government bonds just so we can be liquid. We were very fortunate in that policy when the decline came. We were able to take care of our customers and all the banks dealing with us.

The CHAIRMAN. It has been brought out in these hearings, and seems to be the fact, that the larger national banks, particularly in the larger cities, are resorting to larger Government loans for that particular purpose. They can use that for rediscounting in theFederal reserve and enter into sale and repurchase through the Federal reserve for instant relief. In your opinion, does that have any particular effect on Federal reserve operations? Might not it provide a method of inflation——

Mr. FLEMING. Of course——

The CHAIRMAN. By the continued use of Government bonds as a basis for the issuance of credit?

Mr. FLEMING. I do not think they are used in that sense at all. I think they are used as a safeguard, like an elastic band to stretch on.

The CHAIRMAN. In times of emergency, the big bankers are using them to a great extent?

Mr. FLEMING. Yes.

The CHAIRMAN. Is not that getting back to almost the old national bank circulation medium, which was secured by Government bonds?

Mr. FLEMING. Of course the rediscount rate, with reference to the rate the bonds bear, does not make it very profitable to borrow on Government securities. It is not a profitable operation.

The CHAIRMAN. You do not see any danger in the continued use of Government bonds for the relief of Federal reserve credit?

Mr. FLEMING. On the contrary, I think there is a great deal of concern in the minds of bankers with respect to the fact that Government securities will gradually disappear if we continue our amortization of the public debt, which I understand is at about $900,000,000 a year.

The CHAIRMAN. I have heard some bankers advance that idea in criticism of the policy of the Treasury in reducing the public debt, because it was taking out of the market an increasing number of Government securities, thereby decreasing their availability for sound collateral.

Mr. FLEMING. That, coupled with the decrease of commercial paper, gives very little we can pledge with the Federal reserve banks.

The CHAIRMAN. Decreasing our debt at approximately one billion a year will eventually take away this public debt which is now being utilized by the banks for the purpose of substituting in lieu of eligible paper to secure the release of credit.

In view of that possibility and the present dearth of eligible paper, would you think it advisable that we increase the scope of eligible paper by permitting the rediscounting of notes representing brokers' loans, similar to the Lombard loans which were advocated by the late Governor Harding of the Federal reserve bank of Boston, or would you think we should make eligible installment paper or notes secured on an acceptable percentage of municipal bonds or notes secured by railroad bonds or even making the railroad bonds themselves eligible?

Mr. FLEMING. I would favor consideration being given to making eligible bonds that are accepted as security for Government deposits. I think the fact they were accepted would make a greater market for those securities. We have to find some substitute for the disappearance of commercial paper on which Federal reserve rediscount system was founded.

Mr. WINGO. In other words, without undertaking to define what the change should be, you feel that developments have made it necessary to recast the standard of eligible paper?

Mr. FLEMING. I think we have a very difficult problem ahead of us to find some substitute and at the same time have some collateral that is liquid.

Mr. WINGO. You and the chairman proceed upon the theory that the difficulty is in the big city banks. I have been interested in two banks that you would probably designate as country banks, where they were carrying considerable Government bonds but occasionally borrowing from the Federal reserve banks. They were carrying them for two reasons: One was the natural shortage and the decreasing available of sufficient volume of eligible paper and the other was the difficulty of making their paper eligible even though that paper, from their own viewpoint, was perfectly gilt-edged and sound, and for that reason to avoid the technical requirements as to eligibility, they were carrying Government bonds, and in answer to the question that I propounded to each of the gentlemen and the chairman propounded to you, about the danger of getting back to the old bond-secured Government circulation medium, they suggested that they simply used it as purely a very easy convenience to get funds that are necessary to meet commercial demands and therefore, in effect, they were really not doing anything more than meeting the spirit of the Federal reserve act.

Mr. FLEMING. Government securities are not very profitable to hold from a banking standpoint, as far as the return is concerned. Of course, where you hold a very large block of Government securities for that purpose, to keep yourself liquid and meet withdrawals and take care of unusual demands for loans and in times of stress to take care of everybody that has to be taken care of, you have to gear your bank, as far as expenses are concerned, to be able to carry them.

Mr. WINGO. The whole thing comes back to this, that I think all three can agree on, that with the developments that have taken place there is evidently a necessity for an effort to recast the eligibility requirements of paper, maintaining safety and yet meeting the changed conditions and additional requirements.

Mr. FLEMING. I do not think there is any question of the wisdom of that course.

The CHAIRMAN. This policy of the use of Government bonds is of particular advantage to large city banks acting as reserve agents for country banks in that these banks, through the use of securities, can, at a moment's notice, secure cash from the Federal reserve, whereas if they did not have Government securities, they would probably have to hold the cash. So there is some advantage to certain institutions in the use of these Government bonds in that particular, and also in this respect, that it permits them to lend up closer to their assets, because they can go in at the close of the day with their Government bonds and make up their deficiency in reserve and then take them out again in the morning when the clearances come in.

Mr. FLEMING. It is of very great value, as you state, to any bank that has a number of other banks dealing with it. In the main, those banks are mostly State banks and they have not a large eligible reserve. They may have a lot of real estate loans or loans of individuals, perfectly good, but not the type that the bank itself could take and rehypothecate with the Federal reserve bank. So, the bank carrying those accounts, must have them. The service that the Federal reserve banks have rendered in that connection has been excellent.

Mr. WINGO. It has been suggested by some one that there is this possibility, and to a certain extent, a very great probability, that the volume of eligible paper which has decreased perceptibly and to which you have directed attention—that that volume is apt to come back as we go through changed conditions and the changing conditions we have been going through.

What is your thought on that? Do you think there is a permanent change, that this is a permanent shortage of eligible paper or that there will be a resumption of volume?

Mr. FLEMING. It is my opinion that it is practically a permanent change. I believe people have been taught diversity of investment and that has been so pounded home that where we had two or three men as a partnership operating a commercial house, having all their wealth tied up in that one industry or business, they would prefer to have a preferred and common stock issue, owning the contro land yet being able to take part of their accumulations and keep them in other investments. I do not believe they will go back to the old form.

Mr. WINGO. In other words, there seems to be a unanimity of opinion that the appetite of the American people for stock investments has been whitted and temporary burnings in the market like they suffered last year are not going to keep them away from it; that they are still inclined to trust their capacity to go into the stock market not only for sound investment but for reasonable speculative activities?

Mr. FLEMING. I do not think we will see the general public in quite as deeply as they were in November, because I think there are a great many people who will never again buy a security unless they can buy it outright and put it away. Of course, 10 or 15 years from now there will be another generation growing up and they will forget the lessons that have been learned by the present generation.

Mr. WINGO. You do not know of any philosophy that justifies the Government in saying that you can not buy an A B C oil stock or that you can not buy a Victrola that is beyond your means? Therefore, we can not prohibit their buying for speculative purposes, and the only thing we can do is to see that there is no fraudulent representation in the sales.

Mr. FLEMING. I do not think there is any question about that, and I think anything else would tend to injure the investment of capital in legitimate industry.

Mr. WINGO. Of course you understand that this interest we display in people burned in the stock market is a biennial affair; that with the approaching elections, as happens every two years, we become considerably interested in what happens to these people?

The CHAIRMAN. You say the economic laws have so changed that a burned child has not any dread of the fire?

Mr. WINGO. I have never been entirely satisfied with these old maxims that I learned not so much at my mother's knees as at the knees of some one else.

The CHAIRMAN. Mrs. Pratt, have you any questions?

Mrs. PRATT. I think most of the questions I wanted to ask have been asked already.

Mr. SEIBERLING. To the extent that we have unnecessary restrictions on the paper we rediscount with the Federal reserve, we are putting on an additional burden on the public that buys the service from the bank, are we not?

Mr. FLEMING. I do not know that I caught that question.

Mr. SEIBERLING. Will the reporter please read the question?

(The question was read by the reporter.)

Mr. SEIBERLING. In other words, if you have got to carry Government bonds on which you can not make much profit, you could have other securities on which you could have made a profit and the public must pay the bill?

Mr. FLEMING. If we could purchase a large volume of commercial paper we would, of course, make a great deal more money than by holding a big block of Government securities as a reserve. That might have a tendency to make the interest rates we charge to customers on loans a little lower. It might have that tendency. I think this point ought to be brought out, that practically every other industry or business in the United States is charging now a considerably higher profit than they did 10 or 15 years ago except the banks. The bankers have had to become, through restrictions on the amount of interest they can charge—and I am not advocating higher interest rates—but they have had to become better bankers to take care of their business, to meet the increasing service the public are asking for and yet to build up proper reserves to meet unexpected losses and, in addition, to pay fair dividends on their stock.

The CHAIRMAN. In view of the agitation among the members of the Federal reserve system for a larger distribution of earnings, I should like to ask you whether or not you think that is a good thing?

Mr. FLEMING. I would be opposed to seeing the Federal reserve banks pay interest on their accounts. I think they are giving us excellent service in the transit system, absorbing all the expenses. I do not feel there should be, over the nominal franchise tax to cover any expenses the Government may incur, a better distribution of any surplus earnings, either going back into betterments of the Federal reserve system or in distribution in extra dividends to members of the system who are stockholders.

The CHAIRMAN. Do you see any danger in making a distribution to the banks of surplus earnings, through the encouragement of the demand for the Federal reserve to make more money to make the distribution possible?

Mr. FLEMING. I think with the restrictions thrown around the paper that the Federal reserve banks can buy and the fact that the rates should be what business justifies. I do not see any way by which they can be drawn into competition.

The CHAIRMAN. Of course the Federal reserve rates are arbitrary amounts. I understand it takes the investment of a billion dollars in their assets to meet the burdens of the system. Do you think there might be a possibility of tying up the liquidity of the Federal reserve system if it were compelled to earn more money in order to pay banks an additional amount?

Mr. FLEMING. I think that a very large percentage of whatever the surplus earnings are should be covered back into the surplus of the Federal reserve banks.

The CHAIRMAN. You do not think the further distribution of these earnings would affect the fundamental purpose of the system as a nonprofit-making system?

Mr. FLEMING. In my judgment the large profits of the Federal reserve system were made in two or three years.

The CHAIRMAN. Inasmuch as there is something over $250,000,000 surplus and only 50 per cent of the Federal reserve stock paid in, do you not think the banks could be better served by returning all but a nominal amount of their capital to them to invest as they see fit?

Mr. FLEMING. I would want to give very careful consideration to the return of any part of the capital or surplus of the Federal reserve banks.

The CHAIRMAN. I am not speaking of the return of the surplus, but the return of all but a nominal amount of the capital to the Federal reserve banks and let them invest it as they see fit.

Mr. FLEMING. A bank makes more on capital funds then it does on deposits and if you return a large portion of the Federal reserve capital it would have a tendency to lower their earnings, I believe.

The CHAIRMAN. Well, the Federal reserve is somewhat differently constituted than a commercial organization. I know there is a big agitation on for a further distribution of surplus earnings. I am fearful if that is granted it may be an incentive to place the Federal reserve system in competition with other banking and that it might tend to make nonliquid the assets of the Federal reserve system.

Mr. WINGO. You assume that the bank's stockholders have no control over their institutions.

The CHAIRMAN. The law regulates the amount that shall be paid to them.

Mr. FLEMING. The stockholders have not so much to say in the mangement of the Federal reserve banks.

Mr. WINGO. They are going to have more and more to say, are they not?

Mr. FLEMING. I think, as a general proposition, that most of the member banks feel that the Federal reserve banks have given great service. I do not believe there is any feeling of antagonism between the members and the Federal reserve banks.

Mr. WINGO. What I have in mind is they will have more and more to say as to the question of competition; in other words, if the Federal reserve banks started out, and it became obvious they were pursuing a policy to become competitors of member banks where it was not necessary in the original function——

Mr. FLEMING. I think the member banks would take that question up very vigorously.

Mr. BUSBY. In your statement you name 19 little towns surrounding Washington in Maryland and in Virginia in which I understand you suggest it might be well to have authority for the Washington banks to go into this territory and do a banking business. Is that right?

Mr. FLEMING. Yes.

Mr. BUSBY. What would be the nature of the business that the Washington banks would do in that territory—group or branch or what?

Mr. FLEMING. Well, I believe that the natural tendency of the growth of the city banks will be to enter the suburban districts toward these smaller towns.

Mr. BUSBY. With branches or——

Mr. FLEMING. I would favor authority by law to have branches there.

Mr. Busby. Now, do you know anything about the dividends or earnings of these specific institutions at the places you mentioned?

Mr. Fleming. No; I have no direct knowledge as to what each one is earning, but I do know, as a general proposition, operated as a branch, as I have illustrated in this written statement, many economies can be effected.

Mr. Busby. But that is theory altogether. You do not know anything specifically about the operation of the bank at Cherrydale, for instance, do you?

Mr. Fleming. No; but in connection with the other branches we have——

Mr. Busby. Have these banks importuned your bank or any other to come out and take them over?

Mr. Fleming. No; but I can see that if group banking develops, these banks may be picked up.

Mr. Busby. If the communities are getting along well with the banks and they are prosperous and pleased with them, don't you think Congress should keep you gentlemen out?

Mr. Fleming. I have not stated that we wanted to go out there.

Mr. Busby. You observe it as a fruitful field in which the banks of Washington might operate?

Mr. Fleming. No; but I do take this position, that if more and more of our residents should go into those places——

Mr. Busby. You should follow them with your bank?

Mr. Fleming. No.

Mr. Busby. What do you mean by the insinuations in your statement, then?

Mr. Fleming. I mean just what I say. We believe, rather than have a group, possibly, coming in and pick up these banks around Washington, that it would be preferable for those communities, for the general good of all of these communities here and for us, for us or other banks in Washington to have branches in those sections rather than have those banks owned by groups, which is the present tendency.

Mr. Busby. Yet none of these 19 places have expressed any desire in the world to have you folks come out there and take them over as branches or any other Washington bank?

Mr. Fleming. None have approached us.

Mr. Busby. Do you not know that the life and death fight in those places—not only with respect to banks but respect to chain stores, and so forth—is to keep you out of those communities? Do you not hear the radio programs every night or two preaching against the things you suggest here?

Mr. Fleming. I can only say wherever we have established a branch we have found, in a very short time, that the number of customers that they have had dealing with that branch have increased, the deposits have increased, and we have received general commendation from the community.

I see no reason in the world why we should nor receive the same commendation if we should establish a bank in one of these places that would give greater service to the community, a quicker service and cheaper service—I can not see why anything that happened in a community like Georgetown would not happen beyond the city limits.

Mr. BUSBY. Each one of these 19 small towns grew up by reason of the merchants that went there and established independent banks and the other banks that went there because it was a good trade center.

Now, the independent banks that are there now went there and established business there because the promoters thought it was a good field for them to establish their size of business in and they have evidently prospered, because they have remained in business. Do you think it would be for the best interests of that community to spread the idea out generally and the country at large, to permit institutions like yours to go out there and sap the spirit out of the people who have put their money into these banks out there and bring the management of the branch you establish into the city of Washington instead of letting it alone and letting it proceed in the way it was established by the people who bought the place and wanted it there because they have settled there?

Mr. FLEMING. We have never pursued any such policy, and I know of no bank that operates branches that has not the interest of the community——

Mr. BUSBY. Why do you not go to some other place where there is no bank established?

Mr. FLEMING. It has been our policy and the policy of other banks to select the principal men in the community as directors and members of the advisory board of the branch. You can not conduct a business without the good will of the community, and you of necessity must also employ the management to run that bank that is a part of the community.

Mr. BUSBY. That is from the good-will point of view.

Mr. FLEMING. It is the common-sense and good-judgment point of view, also.

Mr. BUSBY. Tell me this: Why do you figure that they need you?

Mr. FLEMING. I have not said that.

Mr. BUSBY. Why did you suggest that in your letter here?

Mr. FLEMING. Because I have a feeling that if group banking continues, the banks in this fringe of small towns around Washington will be absorbed by some group.

Mr. BUSBY. That will be no different from other like situations in other metropolitan centers?

Mr. FLEMING. We have a different condition in Washington than you have in other cities. If we were not restricted by the 10-mile square, a great many of the city limits would be extended and take in these towns, and there is no question they would be a part of the city of Washington; but, as you gentlemen know, the city limits can not be extended.

Mr. BUSBY. I believe you said a while ago that you thought it was not far distant when the chain stores and chain banks—in fact, chain industry of every kind—would be the order of the day.

Mr. FLEMING. No; I do not believe I said that. I did not mean to convey that idea. There is a growing tendency toward that.

Mr. BUSBY. What is your opinion in regard to its coming about?

Mr. FLEMING. Well, it seems to me to be steadily growing. It used to be only the grocery stores, but it has spread so that it covers a great many other lines of business.

Mr. BUSBY. There are about 22 States that do not permit branch banking at all and 14 or 15 others like Mississippi, which permit it, but you would never know they permitted it from the fact that there are only operating one or two little institutions that were started up prior to the time of the law prohibiting further extension, making in round numbers, about 40 States that do not permit branch banking and yet the statement from every one of you gentlemen coming in here, heading large banking institutions, is that we are right at the point where branch banking is imperative. Where did you get that idea when the States are not——

Mr. FLEMING. I guess I am not familiar with the situation in your State.

Mr. BUSBY. I am talking about your general knowledge of the banking conditions over the country.

Mr. FLEMING. To begin with, a large institution with strong resources can extend the benefit, through a branch to a community center that a small independent bank can not give. There are all sorts of service that can be performed. The public gets better service through a branch than through a small independent bank.

Mr. BUSBY. If the independent operator in a mercantile establishment or a banking institution or any other kind of institution is not protected by law from these larger units, they can force themselves into a community and force the small entity out of business because it can not compete with the different types of service that can be extended by the larger institution and the different kinds of pressure that can be brought to bear. That is the actual situation in regard to that.

Mr. FLEMING. Well, if a branch of a large institution does not give service, the public will not deal with it.

Mr. BUSBY. That is not it. When you put two or three million dollars or $57,000,000 in the hands of an organization, they can go out and in one way or another circumvent or put out of business an organization prospering and serving the situation well and handling the situation admirably for the people there if it has but a million or two of assets.

Mr. FLEMING. That is not my observation of a bank. If a bank pursues that kind of policy it will not be successful in that situation.

Mr. BUSBY. Have you ever talked with anyone where the Bank of Italy, for instance, determined to establish a branch at its own figures?

Mr. FLEMING. I have no knowledge as to the various prices that the Bank of Italy or any bank paid for any bank it took over, but I assume it must have paid a price that was satisfactory to the stockholders or they would not have sold their stock.

Mr. BUSBY. The policy of securing banks by that type of practice ought to be noted in the record. I have it on reliable authority that on one occasion the Bank of Italy representative went to a certain bank in California and offered to buy their stock. They said, "We do not want to sell, but want to remain a unit bank." The representative of the Bank of Italy said, "I will be back next year and I will buy your bank and will not pay you near as much as I offered to-day. I will make conditions so you will sell to me."

I find that is not a foreign spirit to large institutions whenever they determine to enter a territory and take over an established banking business. That is what I object to about this method of growing, by the larger banking organizations.

Mr. FLEMING. Of course a bank is a semipublic institution. They are there to serve the public and, after all is said and done, the public will demand the best service. Whatever type gives the best service will survive.

Mr. Busby. I do not agree with you if you have the money available to bring the other elements into play.

Mr. Fleming. If a bank pursues that policy it will not long have the money to survive.

Mr. Seiberling. I think this record leaves the witness in an entirely wrong attitude. As I understood you to say, you wanted the right to extend the branch banks into these communities because you did not want to be forced into taking over those banks by a group or chain—that if you did not take them over some one else would, and you would be deprived of a banking territory that primarily belongs to Washington.

Mr. Fleming. It is my opinion if Washington was not so peculiarly situated with respect to its city limits, a lot of these outlying territories would be within the city limits now and rather than have a group come in from an outside source and pick up the banks and take the money away from Washington, it would be far better for us to have enlarged branch banking privilege and enable us to establish branch banks there.

Mr. Seiberling. You think Washington has a primary right to the banking business around this fringe around the District of Columbia?

Mr. Fleming. Yes, sir.

Mr. Busby. You say, "Take the money away from Washington." We have been taught to believe, by the group and branch bankers that they put more money into the community than they took away. You do not believe that is the natural result should they tie into the outlying territory with their branches?

Mr. Fleming. I doubt very much if the demand for loans in that territory takes up all the loanable funds for those banks; consequently, the surplus funds unloaned would naturally go into the parent bank, wherever that parent bank might be situated.

Mr. Busby. You do not consider that you have any inherent right to the banking advantages that exist out in Virginia or Maryland and the towns mentioned by you, do you?

Mr. Fleming. No; I do not think there is any inherent right to anything in banking.

Mr. Busby. That overthrows your argument in answer to Mr. Seiberling's question.

Mr. Fleming. I do not think so, sir. I am simply pointing out that this section, if it was in a city like Los Angeles or Atlanta, would be within the city limits and therefore would be a part and parcel of the city of Washington.

Mr. Busby. I must take issue with you there. I do not see how you can get Gaithersburg and Leesburg and a lot of these places 20 miles away. It looks like begging the question.

Mr. Fleming. I said a possible enlargement of the trade area might go that far and I pointed out that there might be possibly an overlapping in some places with Baltimore and Richmond.

Mr. Busby. That is all.

The Chairman. We will adjourn until 10.30 o'clock to-morrow morning, when we will hear Mr. Henry M. Dawes.

(Whereupon, at 4.15 o'clock, p. m., the committee adjourned to meet at 10.30 o'clock, a. m., Wednesday, May 28, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, MAY 28, 1930

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

The committee met at 10.45 o'clock, a. m., in the committee room, Capitol, Hon. Louis T. McFadden (chairman), presiding.

The CHAIRMAN. The committee will come to order. I desire to call to the attention of the committee the fact that the chairman invited Mr. George W. Davison, president of the Central Hanover Bank & Trust Co., of 70 Broadway, New York, under date of May 8, to appear before this committee. Under date of May 9, Mr. Davison replied as follows:

> I have your very courteous telegram of the 8th instant inviting me to appear before you committee on branch, chain, and group banking. I have said already all that I have to say on that subject and it would irk me considerably to have to repeat it. I am inclosing you a copy of what I had to say in the event that you have not seen it. I hope under these circumstances you will be willing to excuse me from attending on the committee.

Under date of May 12 a reply was made to that communication in which it was further urged that he appear before the committee and the dates of May 20, 22, 27, and 29 were suggested. Up to this time no reply has been made to that further communication.

I want to suggest to the committee that Mr. Davison is one of the important bankers in the United States who has given utterance to definite views in regard to the subject that is under consideration before this committee. His testimony is valuable to this committee, and because of the fact that the committee has made the rule not to insert statements by anyone unless they appear themselves for questioning before the committee I deem it of sufficient importance that we have the testimony of Mr. Davison, and I call the matter to the attention of the committee with the request that the chairman be authorized to subpœna Mr. Davison to appear before this committee. I will not bring it up at this time for action, but I present it merely as a matter of information.

Mr. BRAND. Where does he reside?

The CHAIRMAN. New York City.

Mr. BRAND. He should be able to get here very conveniently.

The CHAIRMAN. We are fortunate in having before us this morning Mr. Henry M. Dawes, of Chicago, a private business man, representing the depositor's view, and from his experience as a banker in Chicago and later as Comptroller of the Currency, who has frequently appeared before this committee in connection with matters pertaining to banking in the United States, we will be very much interested in hearing his statement this morning on the subject of branch, chain, and group banking.

STATEMENT OF HENRY M. DAWES, OF CHICAGO, ILL.

Mr. DAWES. Mr. Chairman and gentlemen of the committee, I feel rather apologetic about the length of my statement.

A casual scrutiny of the testimony which has been given before this committee gives one the impression that centralized banking is being advocated solely because of an altruistic desire to serve that portion of our citizenship which makes up the population of our small towns and villages. Strange as it may seem, the pressure for this service does not seem to come from the people who are to be served, but from certain ministers of grace who are competing violently for the opportunity to exercise their benevolence. The question of self-interest or adequate return is touched upon very lightly, but in my opinion may be safely assumed.

It is necessary in considering arguments submitted to this committee to bear in mind the possibility of unavoidable prejudice, and your hearings will not be complete with the testimony of bankers, as theirs will always be, to a certain extent, ex parte statements. There is more involved in the issue than the technique which is the province of the banker. The requirements of industry, commerce, and society are a concern of government and banking is important only as it serves them.

There are two sources of advice and information whose frank expression would be very valuable to anyone making a study of this question. They are the managers of the very large city unit banks and the investment bankers. It would be extremely difficult to get such an expression from either. In the case of the very large institution, which has no ambitions along syndicate lines, the banker would be asked to comment upon the operations of his largest depositors. No matter how bitterly he may feel he will hesitate to say anything which might result in the withdrawal of deposits. The investment banker is in an even more difficult position. He must realize that this movement spells the doom of his business. With the absorption of unit banks by centralized groups, he will obviously lose them as outlets. With the building up of these outlets these centralized groups will, of course, go into the origination of securities, so that the investment banker, by their operation, is deprived at once of his source of supply and his outlet. In the meantime, however, these groups are very fine customers and he has to face the dilemma of losing a good present customer or submitting, without protest, to the development of a movement which will result in his extinction. Without in any way implying that deliberate and improper pressure will be brought on anybody, the embarrassments of these two groups of the large independent banker and the investment banker suggest that similar inhibitions will be put upon a large proportion of those to whom you will turn for information and opinion.

The duties of bankers are those of trustees of other people's funds and a recognition of this has always characterized them in the past. They have recognized that this imposes upon them certain limitations which do not apply with equal force to other activities. When bankers begin to apply some of the methods of other commercial enterprises and some of their systems of finance, they are straying away from the straight and narrow path that they have followed in the past.

Responsibility is essential to trusteeship, and responsibility can not be discharged by the trustee who does not have freedom of control. The manner under which this control is acquired and the place where this control rests will modify the whole course of a banker's operations. Before going into a discussion of the principles of centralization it would be appropriate to discuss the new banking from the standpoint of responsibility and control.

There are three manifestations of centralization in the United States. Up to a few years ago the chain was the most widespread; then in certain States branch banking developed, and recently the organization of holding companies has combined the two principles and extended them.

The term chain banking is usually applied to banks in which there is an interlocking ownership, although frequently this ownership constitutes a minority interest, but always a practical control, due to the personality of the head of the chain. The argument for this type of operation is that it increases cooperation, imposes management, and secures diversification. Many sound chains have been established, and are in operation, I believe, however, that the general trend of banking thought is distinctly unfavorable to them.

When banks are associated for the purpose of the exchange of securities it is not usually the prime securities which are under consideration, and while it must be conceded that a certain diversification of collateral is brought about no very important good is accomplished as good collateral can always be used by correspondents or discounted at the Federal reserve banks. The practical result, therefore, as a rule, is the rapid circulation of bad notes throughout the system.

The dominant personaltity in the chain usually sees that those member banks in which he owns the least stock are the ones which get the worst collateral.

The collapse, about two years ago, of what was, so far as the number of its members was concerned, probably the largest chain that has ever developed in this country, developed a situation which would be amusing if it were not tragic. Certain members of this organization paid to the managing control a large sum of money for instruction in those practical aspects of banking in which the small banker is generally considered to be inexpert. They acquired both knowledge and experience, and in some cases enough bad securities to bankrupt the banks.

The device of transferring assets of local origination to different sections by this method results in an exceedingly difficult task for the supervising authorities. When small loans on real estate are switched from Florida to New York, the New York bank examiner has an almost impossible task in ascertaining their value. The responsibility and the control in chains is often hard to locate, and when located is, as a rule, more distinguished for its control that it is for any financial responsibility.

Branch banking is concentration carried to the nth degree. It may be said for it that the location of responsibility and control is much more definitely ascertainable than is the case with either of the other forms of syndicate operation. Branch banking in this country has not yet passed State lines. If it does an interesting problem will develop as between State and National control. Any system of branch banking offers great difficulties in the matter of examination, either private or governmental. The possibility of switching assets from branch to branch can only be definitely prevented by having an examiner in each branch at the time of examination. I do not know of a case where this has been done up to the present time, but branch banking is in its infancy. It would be utterly impracticable to have examiners in every branch of an institution that, for example, had 1,000 branches. If absentee banking is to be approved, and if centralization is desired, much is to be said for the advantages of this form as compared with the others that involve the same principle.

The recent development of holding company control of unit banking operations is probably the tendency that has precipitated the present unrest. To recall the manner in which these holding companies are formed in many cases is alone sufficient to emphasize the possibility for abuse under irresponsible management. The usual procedure is to issue stock of the holding company in exchange for stock of the unit. Sometimes a majority of the stock is secured in this way, and sometimes a minority, but it must either be assumed that the stock is acquired for the purpose of speculation or for the purpose of practical control. The substitution of the holding company's assets for the financial responsibility of the previous stockholders of course results. This financial responsibility, which must be depended upon in case of trouble and which must pay the double liability on the stock of any unit which fails is nothing more nor less than the stock of other banks.

Since all of the constituent banks, both a bank in trouble and the others whose stocks represent the assets of the holding company, are under the same management and are presumably operating in much the same territory, they will, as a general thing, prosper or suffer at the same time. When an emergency call is made by a subsidiary it will be at a time when the other subsidiaries are in the poorest position to support it and when the stock of the banks not directly involved is the least valuable as an asset. It is rather interesting to hear the advocates of this system of banking contend vigorously that they will always be in position to support a weak unit, particularly to one who is conscious of the relationship between fundamental conditions in a district and the condition of the banks. The epidemic which occurred a few years ago in the small banks of the Northwest and which occurred more recently in Florida was not due to bad banking. It was due to bad crops, low prices, hurricanes, and conditions beyond human control. The banking was not bad. It was simply not good enough to combat the laws of nature.

The prices at which these stocks in unit banks are purchased by exchange for stock of the holding company to a very considerable extent must determine the responsibility and the ability of the holding company to support its units. It is very rarely that the stock of a good and well organized bank sells at as low a price as its book value. Anything above book value is, in its last analysis, of course, an estimate of future earning capacity except possibly some speculative value in trading. It is very rarely that bank stocks are acquired by holding companies on their asset or book-value basis. They are absorbed rather on the basis of what it is hoped that they will be able to earn in the future, the extent to which they will strengthen the general organization, and the fear that some competitor may absorb them.

This has resulted in a tremendous speculation in bank stocks, and this advance and speculation has produced a dilution in the real asset values of the holding companies. It introduces definitely the promotional theory and stimulates speculation. It is altogether a sad departure from the stability and the dignity which has always been a tradition of the banking profession, and it is thoroughly inconsistent with the trustee relationship. To cite instances of the organizations which are sound and well officered and constructive in their operation that have been organized by this system of trading for stocks in holding companies by no means justifies a procedure which is certain to result in bad practices on a large scale.

Up to last fall anything could be consolidated through the holding-company route, if not directly, and almost any profit, evidenced by stock in the holding company, could be realized by the promoter. In the feverish search to find earnings to capitalize the fruitful field of bank stocks was exploited with other stock. It was not legislation but economic law which closed this cycle.

The successful operation of a number of large, well organized companies of this kind is freely conceded, although whether the individual good banks which compose them have been bettered is debatable, but if this principle of indefinite centralization and consolidation by trading stocks is carried to its logical and obvious conclusion, the outcome will be that the banking system of the United States will be in the control of a few organizations which have contributed little if anything in the way of capital and which owe their origin to the dexterity and skill of their officers as traders. Undoubtedly a great many bankers located in our large interior cities have visions of developing holding companies which control the banking situations in their sections, and the ambition eventually to become overlords of feudal principalities, coextensive with the Federal reserve districts. They can draw a most alluring picture and appeal most strongly to provincial and sectional prejudice. Personally, I have never been able to locate Wall Street very definitely, except in a geographical sense, but whatever Wall Street may be they expect in this way to become emancipated from it. If it is feasible to concentrate the banking of a Federal reserve district in one control in 12 districts, does it require any very great stretch of the imagination to conceive of a combination of these 12 districts and a new and real Wall Street? Call it by any name you will, the concentrated control of banking in a few hands is involved, and in spite of the size and resources of our country the number of hands will be very few.

There is an economic argument and a social excuse for industrial and commercial consolidations, which, on account of the quantity theory of production, can better supply the needs of the public, but credit is not a commodity. No legitimate parallel can be drawn between the large industrial unit, covering a great territory, and the large banking unit with distant ramifications. Your industrialist is dealing with a commodity which he has bought and paid for; the banker is dealing with other people's money.

In those cases where the problem of the small, unsound bank can not be solved, and their elimination has been brought about, the central organization claims a great public service in offering to set up branches. The extent to which it is feasible to establish branches where units can not be profitably operated is debatable, but the communities which will support a branch and not a unit are in a small minority, and in a very large proportion of those cases there is no great public convenience and no public need taken care of. The farmer who, in the old days, had a practical radius of perhaps 12 miles with his horse and buggy, to-day with his automobile can cover 100 miles. If he is deprived of a crossroads banks he can go to the county seat. Conditions which, 30 years ago, justified the establishment of a branch in rural districts, have changed entirely to-day, and the district which can be reached from a county seat bank with convenience to its customers is, in most Eastern States at least, practically the limits of the county.

There is at the present time much discussion of the principle of the chain store, but the parallel between the chain store and branch bank is in one respect only applicable. This is in the matter of the substitution of employee for owner operation. Chain stores may or may not be an evidence of progress, but the fact that they are dealing with commodities and not with credit makes a comparison pointless. If a chain store is able to deliver its wares to its customers more satisfactorily than the local merchant, it is because of an advantage over their small competitor which the group banker does not have over the small banker. If the chain store can sell more cheaply than its competitor, it is because it can buy more cheaply because it buys in large quantities. Paying less for its raw material it is in position to sell its product at a lower price. This is the only advantage it has over the local merchant because its other operating expenses are as great or greater. The product with which a banker deals is money.

The price that he pays for money is interest, plus losses on bay loans. As far as the depositor is concerned, the small banker usualld pays less interest on deposits than does the big banker. The general price of money, however, is reflected by the Federal reserve rate and Federal reserve funds are available at the same rates and on the same terms for big and little bankers. The big banker, therefore, does not get his stock in trade any cheaper than the little banker. The remaining factor in the cost of this raw material—money— is the extent of losses in bad loans. Bad loans are due to either incompetence on the part of the banker or a disposition on his part to render service to his clients and to his community even though it involves a certain recognized risk.

Let us analyze this question of incompetence. The complacent arrogance of size and wealth asserts that the big operator, whether in banking or any other commercial pursuit, is a better man than the little operator, allowing for no fortuitous circumstances by which the big man may have achieved his greatness. Assuming then that the big banker is a better man than the little banker, he is handicapped in his operation becase he knows less about his credit risk than does the little banker, especially if the big banker is a chain banker and the little banker is a unit banker. The unit banker, particularly in the smaller communities, is the personal acquaintance and friend of the man who makes the loan. He is familiar not only with the details of his business, but he knows his character, experience, and ability. He has every advantage over the man who must form his conclusion as the result of the recommendations of a minor employee in a distant city. The owner of a bank will make less bad loans than an employee whose superior may be a thousand miles away. If, however, banks are to be conducted as pawn shops, where standard collateral is the only basis for loans, it makes no difference whether loans are made by financiers or clerks. Anyone can apply the simple formulas.

If banking is not considered as a social responsibility, there is no excuse for any bad loans. This is not the case, and certain risk must be taken in the interests of progress and in response to the public interest. Remembering that the banker is a trustee for the community's funds, he has no more right to withhold them unreasonably than he has to disburse them carelessly. As a member and a product of the community in which he operates, the unit banker is in a position to appraise the public needs and to administer them more sympathetically and more intelligently than the absentee banker. In doing so it is not impossible that he may, at times, incur losses which the absentee banker would not, but these losses which are made in the exercise of public responsibility will not, in the main, offset the saving he effects over the operations of the chain institution because of the intimate personal acquaintance with the creditor. In considering such losses of the unit banker as may be the result of too great liberality to local enterprise, it must be remembered that the money which is lost to the bank is not lost to the community, that the brick and mortar upon which these funds may have been expended are still in the community, whereas if the funds are loaned by absentees to absentees the loss registered on the balance sheet is a loss to the community. The big bank and the little bank, therefore, start with the same base in the cost of raw material. Their additions to this in the way of losses are not widely different, and the only advantage, therefore, of one over the other must be economy in mechanical operation.

Economy in mechanical operations is a thing which can reasonably be assumed for both the branch and unit system. Such advantages as there are, however, in my opinion, rest entirely with the unit system. The overhead of a central organization and the red tape which is involved in its operation, the delays in decision, the division of responsibility, and so forth, ad infinitum, are inherent in size, and are a deadweight which the injection of specialists does not offset.

The availability of money is as important as the price thereof. It is conceivable that in the city of the central bank, on account of drawing funds from the smaller communities, more money would be available, but it hardly is in accordance with nature for the central office communities to pump its funds out to the smaller branches. The inevitable results of centralization will be to restrict the activities of smaller centers, and to accelerate the concentration of population in the larger cities.

Under the unit system of recent years, the percentage of loss to depositors in large banks has been so small that it is practically negligible. The extent to which failures have been confined to smaller institutions is demonstrated by the fact that in the eight years ended December, 1928, 63 per cent of the total number of failures was confined to banks with a capital of $25,000 or less and that 88 per cent of the total was in banks of less than $100,000. Further, as showing the extent to which the trouble was confined to small municipalities, 40 per cent of the total failures occurred in towns of 500 population or less (and it is a very unusual situation where a bank is justified in a town of less than 500), 60 per cent in towns of 1,000 or less, and 80 per cent in towns of 2,500 or less. The problem of safety is therefore largely a small-bank problem. The group banker suggests that he will solve this by extending his branches or chains to the communities in which these little banks are located. How does he intend to do this? Does he intend to buy up the good banks of the community and incorporate them in his chain? If so, he hasn't improved the situation. Does he intend to buy the bad banks? I have not heard of them suggesting this. Does he intend to compete with the good banks? This would not be desirable, as it would substitute absentee control with no compensating advantages. His answer would hardly be that he would want to compete with the poor banks, as obviously that would quickly cause their failure and injure the community. It seems to me that the only claim must be, and it may be a fair and reasonable one, that his objective is to eventually supply branch or chain banks to every community that needs banking facilities, and to the complete exclusion of the unit bank. If he can operate as economically and serve the community as well as the unit bank he will soon eliminate the unit banks.

Unit banks can not survive the competition of chain or branch banks. They serve the community better, but it is at a serious disadvantage in two respects. In the one case certain clients who are very profitable to a bank are compelled to patronize the chain or branch institution in all matters because they can serve them in some. The management of a concern which operates in a number of different cities is very often associated in business enterprises with the men who are conducting central institutions, and will, as a matter of course, patronize their branches at the expense of the unit banks. When he is not associated with them either socially or in a business way he frequently has to meet them in connection with the issuance of securities. When he does this he incurs, either directly or indirectly, an obligation to patronize their branches. Whether he wants to or not, he is in a position where he feels that his interests require him to throw his business to the big chain rather than to his friend and neighbor. This class of patron usually constitutes a large portion of the cream that is now coming to the unit bank. Furthermore, entirely outside of the banking relations, the operators of small commercial and business enterprises are very much handicapped in meeting their larger competitors if those competitors have the ear and the approach to the avenues of credit that can only be reached in central cities after the unit system has been discarded. This situation can not be ignored by the assertion that the chain bank can offer facilities that the unit bank can not, because there has never been a time in the history of this country that, through the operation of the correspondent system and the use of various methods of syndicating loans in financing, it has not been possible for the small banker to accommodate his clents who are entitled to credit. The difference is that in the one case the client is dealing with a friend and a neighbor, and in the other he is dealing with a stranger in a distant city, and as every unit bank becomes attached to a chain the opportunity for syndicating cooperative arrangements between others is narrowed. It can not, I think, be contended with justice, that when the country is eventually under the centralized system these banking arrangements can be made with more celerity, if at all. There are few business men who are not familiar with the red tape which is essential to safety in the operation of a very large organization.

Whatever the fundamental reasons, the fact remains, nevertheless, that few localities can be shown where unit and chain banks or branches have existed for a very long period in competition, and it is the centralized group that is the survivor; but it is not, in my opinion, a case of the survival of the fittest, unless the social aspects are disregarded. The issue is one of survival, and it is hopeless to attempt to compromise.

In spite of general claims to the contrary, these new syndicates have done little, if anything, to solve the difficulties of the unsound small bank, whose failure is being enlarged upon as an argument for the inauguration of a new economic era. They can not solve this question, and it never will be met except by the inexorable operation of natural laws. Just as truly as there is a point at which too great size destroys efficiency, there is a point below which the unit can not survive. There are hundreds of banks of less than $100,000 capital that are sound and strong and have every element of vitality inherent in them, but the measure of such banks' ability to survive is not the size of their capital but the extent of the resources which the community can put into them. Generally speaking, however, the banks with very small capital may be assumed to have very small deposits, and the overhead cost of such an operation is such as to prevent their thriving, and the principal reason for their failure is the fact that they can not afford the expense involved in securing the service of competent officers. To expect to secure a very high class of talent for a salary of $2,500 to $3,000 a year, which is all that a very small bank can pay, is unreasonable.

The responsibility for this rests primarily with Congress and the State legislatures in permitting the chartering of too small institutions, and secondarily with the authorities, both State and national, to the extent that they should have exercised discretion in refusing charters where communities did not require them. The discontinuance of the issuance of further charters below a reasonable limit would be constructive. The only thing that can be done for the unsound banks which are now in existence is for the supervising authorities, State and national, to help them to bring about liquidation in a way that will occasion the least loss and to supervise the sound banks as carefully as possible and stop chartering too small institutions for which there is no need. The injection of the branch and the chain system will only exaggerate a bad condition.

The Federal reserve has been in successful operation for a matter of some twelve years and it is natural to fall into the habit of thinking of it as though it were an independent unit rather than as it actually is, a coordinating agent. It is merely the composite of the members of the system and automatically changes with any change of its constituents. To recall this obvious fact centers attention on the effect of changes which private banking innovations will have on the Federal reserve system. The operations of State and national banks and the Treasury Department and the Federal reserve are inextricably interwoven and it is impossible to legislate in any matter affecting one independently of the other. The Federal reserve was organized because of the ability of the Federal Government to enforce the more or less unwilling and certainly unenthusiastic cooperation of the national banks. This was later followed by the timid and tentative approach of the State banks, so that its membership at the present time is partly compulsory and partly voluntary. It is the final evolution of a century of finance and the solution of the conflict of the years between the centralization theory and the independent unit theory. In a sentence, it consists in the application of coordination to independent units.

With the development of chain, branch, and syndicate banks the membership is being changed from that of independent, locally operated units to centralized groups under absentee control. Every group which is organized along these lines decreases the number of persons who, in its last analysis, would control the operations of the system. In the case of holding companies, the holding companies themselves are under the jurisdiction of State officials. The State banks are under the supervision of 48 different superintendents, and the national banks are the only private institutions engaged in banking over which the Government has direct control.

This brief statement of fact makes clear that with the decline of the national banks, the direct influence of the Government on banking operations is decreased, and the further fact that with the organization of groups, the democracy which has characterized the operation of the Federal reserve system is being undermined. It seems to me desirable, therefore, that the Government should do every possible thing that it can, in justice to the State banks and the Federal reserve, to strengthen and develop the national banks, through which it financed the Civil War and organized the Federal reserve system. The other matter of the centralization of the control of independent units involves a control of the Federal reserve system. When in the logical development of this tendency, the control of banking in the United States gets into a very few hands, control of the Federal reserve system will go with it into the same hands. In discussing chain, group, and syndicate banking you are, therefore, discussing the whole fiscal system of the country, both private and governmental.

It seems to me that there is no room for compromise on this subject and that a determination should be reached as to whether the United States wishes to embrace a national system of branch banks or to preserve its coordinated independent units. It can not do both.

When the greatest exponent of branch banking, both in practice and in theory, states that in his opinion the development of chain and syndicate banking is a step toward national and international branch banking, it bears the weight of logic, as well as of his prestige. Rather than to temporize and to attempt to compromise a fundamental issue, the interests of the public would in my opinion be better served by determination as to whether or not branch banking is desirable. Compromise and permissive legislation would have the effect of strengthening the movement to such an extent that when, at some later time, the public rebelled against monopolistic tendencies, it would bring about a convulsion which would hurt everyone.

The CHAIRMAN. Mr. Dawes, it is the custom that the members of the committee interrogate the witness. I suppose you are prepared to back up your statements and to answer questions.

Mr. DAWES. I may not be prepared, but I shall try.

The CHAIRMAN. Mr. Dawes, would you recommend that the law be changed as regards the capital of national banks, so as to make a minimum of $100,000?

Mr. Dawes. Yes; I would. But I hesitate to name an exact minimum. If the comptroller were left with pretty wide discretion as to the chartering—which is a job I think he would not particularly crave—it might be safe to make a smaller amount, but my offhand opinion is that $100,000 would be about the right amount.

The Chairman. I rather gained the impression that if you favored branch banking at all, it would be county-seat branch banking?

Mr. Dawes. I do not favor branch banking at all. My idea is with the elimination of the small and uneconomic bank that the county seat bank—the large bank in the community—would be strengthened to such an extent that it would carry on all the banking that is necessary to meet the economic requirements of the community

The Chairman. What bearing on this development has the Federal reserve had—the starting and putting into operation of the Federal reserve system? In other words, prior to its establishment, we had the unit system in the United States. The organization of the Federal reserve system joined together the national banks in a compulsory manner and permitted the State banks to join voluntarily. After all, it is a form of branch banking. Do you think that the development which has subsequently taken place in the operation of the Federal reserve system has been a factor in this driving out of the unit system?

Mr. Dawes. I do not think it is a form of branch banking. I draw a wide distinction between coordination and control and ownership. The Federal reserve system, in my opinion, is simply a coordinating agent for the banks. The Federal reserve has no control of the operation of the banks.

The Chairman. It has a very dominant influence in the operation of every bank that is a member of the Federal reserve system.

Mr. Dawes. My own personal feeling is it is not so dominant as a great many people seem to think. I think it simply offers facilities which the banks can use. But further than acting in an advisory capacity, I do not think it dominates the operation of the banks.

The Chairman. Through the classification of eligible paper and the administration of policies laid down, do you not think they have a very dominant influence over the operation of independent banks?

Mr. Dawes. Well, it depends on the way you use that word "dominating." I think it is very powerful, but I think their duties in operation are merely one of coordination and of giving the banks an opportunity to cooperate. It is almost in the nature of a clearing house.

The Chairman. Do you think that the methods of operation of the office of the Comptroller of Currency have been a factor in this situation?

Mr. Dawes. Well, I think it would have been an impossible situation without the efforts of some one to supervise the banks. I think he can do a great deal. However, I think the powers of the comptroller, if anything, should be extended. They should be made a little more direct, perhaps.

But I do not think that the Comptroller, or any other official, would be able to exercise power of saying to whom or what corporations or individuals they should lend money, which, of course, occurs in branch banking.

The CHAIRMAN. I have a letter here from a small country banker down in Georgia, received this morning, which is very pertinent to this study. Of course I recognize the fact that the committee has forbidden the introduction of letters of this nature into these hearings unless the witness is present to be questioned.

This man makes a very complete statement, however. He does not leave very many questions to be answered from this statement. Among other things, he says in here that unit banking must be protected.

"Yet this constant parade of big group, chain and branch bankers before the Committee on Banking and Currency, who proclaim that the unit system has broken down, might conceivably cause it to break down. Is it not time that this murderous procession stop?"

There is one suggestion that comes from this independent banker who feels that a great injury is being done to unit banks of the United States by the presentation of arguments on the question of group, branch and chain banking before this committee.

Of course, in that connection, we are beginning now to hear some of the unit bankers and those who are opposed to branch, chain and group banking.

Mr. BUSBY. Did we not finally leave that rule so that we would pass on the individual matters when they presented themselves for our consideration, such, for instance, as you hold in your hand?

The CHAIRMAN. I am presenting it to the committee because this letter contains many facts relating to this subject that ought to be made a part of the hearing. I am reluctant to put it in because of the previous action of the committee.

Mr. BUSBY. I did not understand it absolutely to bar that type of information where the committee might determine that it was proper to be included in the hearing.

The CHAIRMAN. I should like to read this letter to the committee. After it has been read, the committee can decide whether or not it should go into the record. Without objection, I am going to read it. It is from the Citizens Bank & Trust Co. of Bainbridge, Ga., and is addressed to the chairman of the committee.

(The chairman read the letter referred to.)

Mr. SEIBERLING. I do not see, Mr. Chairman, why we should make an exception of this man's letter and put it in the record. If we do that, there are other men who can make just as strong an argument for group, chain or branch banking.

The CHAIRMAN. Very well, we will not insert it in the record.

Mr. LUCE. Mr. Dawes, various persons who are communicating with us in this matter appear to lay a shaky foundation for their arguments. A communication that I hold in my hand says:

> It is true that occasionally a small bank fails, but there are things that are far worse. Perchance, if it were not for our unit banks, the people who occasionally lose a few dollars in our small country banks, would not have had them to lose in the first place.

These hearings began with a statement by the present Comptroller of the Currency, in which he laid the foundation for his argument by informing us that in the last nine years, between five and six thousand banks had failed, involving a total that I will put in the record as soon as I can lay my hands on the figures.

Now, he represented to us—and I think it means on its face that the figures do not correspond with statements to the effect "that occasionally a small bank fails" and the further reference in this letter to "a few dollars"—it would seem evident that between five and six thousand bank failures constitute a sizeable situation and not deserving of treatment after this fashion.

Now I take it, sir, that these five or six thousand banks that failed were established in the expectation that they would prove of service to the community where they were placed, and that the bankers would get a legitimate profit out of rendering that service. It follows, therefore, that between five and six thousand communities in the United States—assuming that there was but one bank in a place; and of course I do not know how often another bank was left—but let us suppose that five or six thousand places in the United States have lost the convenience of a local bank in the last five or six years: What I have not observed in your statement is how you would suggest meeting the needs that these banks were meant to serve.

Your tangible proposal is that we lift the minimum capitalization of national banks, the effect of which would be to deprive still other communities of the convenience of banking facilities. Is it your judgment that we might sit by and ignore or suppress or destroy the facilities in the smaller communities of the country?

The CHAIRMAN. Before you answer that, Mr. Dawes, may I supplement what you said, Mr. Luce, by some additional facts?

Mr. LUCE. If you will, please.

The CHAIRMAN. During the first four months of 1929, there were 194 failures. Up to the present time in 1930 there have been 389 failures—42 national banks and 347 State banks.

In 1929, for the 4-month period, there were 26 national banks and 168 State banks.

Mr. LUCE. These figures add to what I have said showing the steady lessening of banking conveniences for the fellows in the smaller communities throughout our land. How would you suggest meeting that need, if it be a need?

Mr. DAWES. In the first place, in connection with the bank failures, I think they afford an economic index of conditions in the various districts. I think the failures in the northwestern section, which were confined largely to the smaller banks, were not due to bad banking, but due to conditions that did not exist in New York and Massachusetts. So, I do not attribute that condition to the conduct of the banks.

When you speak of five or six thousand communities being deprived of banking service because five or six thousand banks have failed, I think you are in error. You will find, in quite a large proportion of the communities, the failures were due to too many banks being established in any one community. Perhaps they should not have had over one bank, and if one bank is left they are not deprived of adequate banking facilities where, as a matter of fact, they are left with a better situation.

I am not attempting to offer a solution for the question, but I would make the general observation that it would be better to have a few scattered unit banks go, than to have a whole chain fail. Size does not necessarily mean safety.

While I think the banking system has been faulty in certain respect, nevertheless I would rather continue to see a few banks fail than see the economic independence of five or six thousand communities entirely destroyed, as would be the case with the establishment of these large chains.

The chief answer I would make to your question is that it seems to me that the clamor for this complete change in banking which is taking place now does not originate in the communities which are supposed to be the sufferers. It is rather on the part of those who are anxious to extend a practice in order that they might make money out of it. It is a perfectly laudable and proper thing to do if it is hedged around with reasonable safeguards and that protection which should be given to the public which is served by trustees.

Principles that may be properly applicable to industrial enterprises, in my opinion, should not be applied to banking.

I would say that 90 per cent of the population of small towns who have bank accounts own or have access to automobiles. These banks, or the greater bulk of them, were founded when people did not have automobiles, but when they used horses and buggies to get to the small towns. The farmer does not have to go to the bank every day. I think he would be willing to go 50 or 60 miles to the county seat bank, thereby eliminating the need for the cross-roads bank. Ample facilities can be afforded in unit banks in county seats. At any rate, I should rather wait until there is a great demand on the part of the public to be served before I changed our general banking system.

It is an exceedingly difficult thing for your committee to get testimony on this subject. The average man—and even the average business man—does not know much about banking, and yet the average man is, after all, the one who puts the funds in the banks on which they operate, and it is to the banks that he must go for support at times of stress when he needs money. However, he does not know anything about how they are carried on, and almost all the discussion I have read about the subject has been on the part of bankers.

It would be natural to ask the so-called Wall Street banker what he thinks about chains. He may privately tell you he does not like them, but he does not like to say anything publicly, because he is accepting the deposits of these same chains. Ask the stockholder in the small bank what he thinks about syndicate banking. He dislikes it but if he thinks he sees a chance to sell his stock in his bank to them, at inflated prices, naturally he feels reluctant to incur their ill will.

Take your bond man: The independent bond houses all over the United States have been going out of business because of the absorption of the outlets by the chains. He does not want to say anything because he is likely to lose an existing customer, if he opposes a potential destructive competitor.

Take the ordinary business man, and he hesitates to criticize any system of banking because he has to go to the banks to get credit.

I sympathize with the committee a great deal in their endeavors to get impartial testimony. It is a very difficult thing.

Mr. Luce. Now, let us center our attention upon the question of the convenience of the customer. You said it was difficult to get testimony from the customer. That may warrant me in testifying as a customer. I shall relate one or two experiences I have had as a customer, and ask your judgment.

Four years ago I had occasion to pass some time with a relative in a town in California 15 or 20 miles out of San Francisco and I had occasion to cash a draft. I went to the center of the village and found an attractive, commodious banking office where I quickly completed my business. It was not a branch of the Bank of Italy, but of a San Francisco bank. It is true that I could have traveled some miles to a larger community, but it was a convenience to me, as it was a convenience to all the people of that town, to have at hand a teller's window—I presume it was not much more—and had it not been for the fact that that office furnished the convenience and therefore made a profit, benefiting both sides of the bargain—and every business transaction that is economically sound benefits both parties—that would not have been kept open. That is an illustration of the benefit received by the customer in a small town in California. Now, let me testify as to the benefit to the customer in a small town in Maine, where I pass as much of the year as Congress will permit. I am 12 miles from the nearest sizable business center, and even that is a town of not more than, I suppose, 1,500 or 2,000 population, and it has two banks. It is important to me to have access, once a week, at least, to a bank. I get there in half an hour. If those small banks should disappear, I would have to travel 32 miles to a large town and it would take me the best part of the forenoon to go and come.

I should like to testify there as to the convenience of banking facilities in small places.

Now, it has been shown by your view of the matter and by the views of Mr. Pole, and by the figures set forth, that unit banking in the small places is dangerous and likely to bring loss. In my own case every summer it may expose me to the loss of what deposits I may keep there in the place I occupy.

Is it quite sufficient to say, under those circumstances, "Shut up your small banks and travel farther?"

Mr. Dawes. There is an expression which is used very largely in public service matters, and I notice it in some of these discussions—the public convenience and necessity. I think you are emphasizing more the question of public convenience than public necessity.

However, assume you are a small business man in a small town and need occasional loans: You need the money and you need it badly. Your credit is good and your background is good and you are willing to work and the bank is willing to lend you the money even perhaps if your collateral is not strictly conventional. When a bank serves you in making a loan without which you would go into bankruptcy it is performing what is to you a necessary service. When the banks which can do this are replaced by branches or tellers' windows those facilities may give you as convenient service as the unit bank but they will not minister to your dire necessity. In my opinion the introduction of the branch banks will destroy the unit banks, and when this is done the community will have bartered necessary service for a superficial convenience.

Mr. Luce. I want to be very courteous, Mr. Dawes, but I do not think you are answering my question. I want to know whether you want to cut me off from the use of banking facilities during every month I pass in the State of Maine.

Mr. DAWES. Well, Mr. Luce, if I may speak plainly, I do not care particularly about the convenience to you at the expense, perhaps, of robbing the people, who put their money into these banks, of the privilege of borrowing their own money.

Mr. LUCE. Were you not a little strong in the use of the word "robbing"? I do not think, sir, that the Old Colony Trust Co. in Boston has robbed anybody by acquiring branch banks.

Mr. DAWES. My obvious meaning was that they had deprived the public of their control of their own funds.

Mr. LUCE. I still fail to see any loss that will come to anybody from allowing banking facilities in the towns of which I spoke. I do see the desirability of making them more safe and of protecting depositors and customers and everybody, as might come if it was a branch of a larger bank, but for the life of me, I can not see the economic desirability of depriving small communities of the country of banking facilities.

Mr. DAWES. I think the small communities of the country that require banking facilities can support them, and the only reason why there has been an unreasonable—if there has been—number of failures (and you can not say they have been unreasonable until you study the economic conditions that exist in any particular area) is that there has been overcompetition. I admit, franky, that banks have been established in too small communities to be economically supported.

You have the same thing in the gasoline business, in the service stations. I do not believe any part of the public would be seriously hurt if you had a few less service stations.

Mr. LUCE. Evidently our views can not be reconciled in that particular.

Now, let me inquire on another phase of the subject, to which the attention of recent witnesses has been called. A recent writer on the subject of investment trusts, who seems to have given the subject full and thorough study, predicted that within a very not long time all the stock of the substantial banks of the country would pass out of individual ownership into corporate ownership. Does that strike you as an ominous prospect?

Mr. DAWES. You say all the stock of all the banks of the United States?

Mr. LUCE. The stocks of the important banks of the United States.

Mr. DAWES. Yes, I think that would be unfortunate.

Mr. LUCE. Would you think that the seriousness of that situation is great enough to require action on our part?

Mr. DAWES. I do not know exactly to what you are leading, Mr. Luce.

Mr. LUCE. We have been informed, within a week, that 50 banks in Pennsylvania are in process of being taken over by a chain, and there seemed to be two ways that what I referred to may come about; one is where all the stock of a bank, or the controlling stock of a bank is secured by a holding company, and the other, which seems to me ought to be distinguished therefrom, is the process whereby a consolidation of investment in investment trusts will result in their taking up bank stocks whenever they are offered for sale, so that ultimately, in view of the attractiveness of investment in the larger banks, the ownership of banks will be in the hands of the trustees of the investment trusts.

It is the second of those things that I am particularly interested in and not the holding company. I am particularly interested in the process of individual stockholders dwelling in the communities concerned, through the ordinary processes of the stock exchange, presently disappearing, with the stock holdings in the large banks, as is already the case, I fear, in respect to the largest of these banks, to a considerable extent, if not to a dominating extent, falling into the hands of trustees dwelling in the big centers.

Mr. Dawes. I think I have expressed myself about it as well as I can on that subject. I think that is about the most unfortunate thing that could be developed in banking.

Mr. Luce. What can or should we do about that?

Mr. Dawes. I do not know. The only point I would particularly stress is that I would suggest precipitating the issue as between the unit system of banking and centralized banking. The solution I do not know. My feeling is that if you temporize with the principle and compromise with it, the solution will not come as quickly as if you face the issue frankly as to whether something should be done to prevent extreme centralization. I am a little at a loss, when it comes to suggesting a solution to that, but I think that is the issue you should face.

The Chairman. In that connection, we are facing a practical situation. We have this chain and group banking here in our midst to a very great extent and it is daily increasing. We also have branch banking.

What is the practical way, in your judgment, for Congress to deal with this subject? Would you prohibit branch banking or an extension of it—forbid any further extension? We have it to the State limits so far as State banks are concerned and city limits for national banks, but the advocates for this system say that we should extend it to trade areas, nation-wide and permit it internationally. That is for branch banking.

Now, for holding company banking, which is the substitution of the group for the individual holding of bank stocks, which is proceeding under State laws, and over which Congress has no power, apparently—and as you know, while you were Comptroller of the Currency, although we tried, we never could get language to cover it—have you any suggestion as to how we can control chain banking or group banking? That is what the committee wants to know.

Mr. Dawes. No; I would rather not try to express myself on that, because my ideas are not clear enough, naturally. But I do not think there should be any further extension of the principle you embody in the McFadden bill. My belief was that the purpose of the McFadden bill was to restrict branch banking and not to extend it. However, the argument was made frequently before the committee that the establishment of offices in one city was the first step in the direction of Nation-wide branch banking.

When it comes to a definition of economic areas, you run into all kinds of difficulties, but I am convinced that once you admit the principle, it is extended indefinitely.

I have always contended that the principal office with branches within the limits of a single city did not in any way impinge on the principle of absentee ownership. But when you come to trade areas, that is entirely different. I remember when I was on the Federal Reserve Board we spent much of our time arguing as to what was a trade area, and the definitions extended from contiguous counties to all over the State and from coast to coast.

The CHAIRMAN. The confining of branch banking to city limits does not restrict a customer from doing business wherever he wants. For instance, a man living in the city of San Francisco can do his banking business in New York City, as many of them do. There is no control over the customer as to where he shall do his banking business. That restriction is as to additional facilities of the banks to serve their customers.

It has been pointed out here that these hearings are accelerating the activities of these various groups in picking up banks all over the United States. It presents quite a problem to this committee. In attempting to deal with that question while this study is going on and while Congress is trying to find out what it is all about, and with the idea of determining whether legislation is necessary and, if necessary, how such legislation shall be framed—all of which takes time—I introduced, on April 30, 1930, a bill, and I should like to have your thought and judgment on the wisdom of it. The bill reads:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That after the approval of this act it shall be unlawful for any corporation, copartnership, or trustee, to purchase or otherwise to acquire more than 10 per centum of the shares of the capital stock of more than one member bank of the Federal reserve system, whether State or national bank member, except after first obtaining the approval of the Comptroller of the Currency with respect to national banks, and of the Federal Reserve Board with respect to State member banks. Any person or corporation violating this act shall be deemed guilty of a misdemeanor and shall upon conviction thereof in any district court of the United States, be fined not more than $10,000.

What I was there trying to do was to check this apparent activity until Congress has had an opportunity to decide what should be done. Of course I realize that is a crude bill, but it was placing the authority in the comptroller and the Federal Reserve Board, which would reach national banks and State banks of the Federal reserve system. This would not, of course, reach State banks which are not members of the Federal reserve system.

Mr. DAWES. I would very heartily favor something of that kind if it is practical and legal. I presume it is, or you would not have drawn it. Of course, it offers the objection that a bank can withdraw from the Federal reserve system, and as these chains become larger they are gradually becoming independent of the Federal reserve system.

As Mr. Luce suggests, these groups, through trustee ownership, may create a situation where they can overthrow the whole Federal reserve system. It seems to me—although I am frank to say I am incompetent to advise—that it might be possible to strengthen the Federal reserve system. I do not mean so much by punitive measures, as by the constructive service they might give to its member banks, so that any bank, in order to prosper, would want to join, and would have to join, the Federal reserve system.

I feel very strongly that this situation, the danger of which is so generally recognized by students, may possibly be solved through building up the Federal reserve system to such a point that membership in it is necessary for successful operation by either State or national banks. If this is done conditions of membership in the Federal reserve of such nature could be imposed that they would put a stop to any form of controlled banking which was either irresponsible or subject to monopolistic development. The difficulty in the past in getting constructive legislation for the benefit of the Federal reserve and its members has been that it was attacked as class legislation for the benefit of bankers. If the Federal reserve system should be presented to the public and to the Congress as the instrumentality through which efficiency and democracy in banking could be preserved I believe that constructive legislation could be secured. If it could be made clear that syndicated banking is essentially opposed to independent banking, and that the Federal reserve system is the bulwark of coordinated independent banking this prejudice could be overcome. Unfortunately and unjustly constructive Federal reserve legislation has been attacked as class legislation. Certainly the preservation of independent banking is not class legislation.

The CHAIRMAN. This development is proceeding under the direction of bank officers who are practically the trustees of the people's money, as it is intrusted to their care and management. These people who control the assets of banks are very much concerned about this particular development. You very aptly described the ignorance of depositors so far as practical banking methods are concerned, as to safety and risk, and it is a problem in which the public is tremendously interested, and the difficulty of this committee is to get an expression—a correct expression—from the public who are most interested in this whole undertaking.

We are hearing these trustees who are managing the banking business of the country, and it seems to me that some action should be taken here while this study is proceeding, and while it will take time to consummate something definite in regard to what should be done to guard the public's interests, I think some kind of legisltaion, whether this bill or something else, should be passed to maintain the present status quo.

Mr. DAWES. Do you not think one of the chief dangers of the situation is that the public will suddenly wake up to the fact that the issue is concentrated control or monopoly, and when they break loose you will have another Andrew Jackson attack on banking?

The CHAIRMAN. I am fearful of a subsequent reaction such as you indicate. How far it will go no one can foresee.

Mr. WINGO. I have listened with a great deal of appreciation and interest to this discussion which has just taken place between you and the chairman with reference to his so-called 10 per cent bill. I congratulate him on getting someone to approve his bill. You are the first one that I have heard who has.

The CHAIRMAN. Do you not remember Mr. Ottley, of Atlanta, who suggested it?

Mr. WINGO. I do not think he suggested this. I noticed that in one of your statements just now you said you thought we should do everything we can to build up the Federal reserve system. Did I understand you correctly?

Mr. DAWES. Yes.

Mr. WINGO. Now, we will take this bill, which makes it unlawful for anyone, either corporation, copartnership, individual, or trustee, to purchase or otherwise to acquire—and, of course, that might include an inheritance—more than 10 per cent of the capital stock of more than one member bank of the Federal reserve system, whether State or national bank member.

I presume you favor that because you think that will check monopoly?

Mr. DAWES. I favor the general principle expressed in the bill. I have not even read it, and I do not think Mr. McFadden read it all.

The CHAIRMAN. I stated frankly I did not know whether this would reach the thing we are after, or not, but that I think some bill should be passed that would deal with this subject and maintain the status quo.

Mr. WINGO. I want to drive home and direct the attention of the witness to the difficulties of the situation, and that is the chief object I had in attempting to analyze the bill with the witness and getting his opinion on it—as much for my information as the chairman's.

Suppose that I and some other gentleman or gentlemen belonging to a group wanted to build up a chain of banks in the Federal reserve system and wanted to get a monopoly, which you and the chairman oppose. Under this bill we would have to do one of three things. If we could get the blessing of the Comptroller of the Currency—if he would pronounce his blessing on the monopoly—that would be all right under the bill. That would relieve us from any further trouble if he said it was all right.

However, if the comptroller would not give his blessing, then we would be confronted with two practical propositions. We would have to do one of two things; either we have to keep just one of the banks in the Federal reserve system and let it act as a syphon to get the benefits of the system for the chain, and get the others out of the system; that is, if they are national banks, turn them into State banks and not have them members, or, if they are State banks, have them withdraw from membership in the Federal reserve system. In that way they would escape from the scope of the bill.

So, there would be two tendencies—one, to take national banks out of the system, and the other to take State member banks out of the system. You would not favor either, would you?

Mr. DAWES. No; I would not.

Mr. WINGO. The other alternative that the lawyers will tell you about, is this: If the game is worth the price, and you want to build up this monopoly, you can go in and pay a little $10,000 fine and get control.

Now, you have had some dealings with lawyers. Do you think they would have very much difficulty in getting around this provision?

Mr. DAWES. I think it I were committed to that principle, the first thing I would do would be to ask a lawyer, to draw the bill.

Mr. WINGO. I think that is the wisest thing you have said this morning.

Mr. DAWES. The point, however, I should like to make, is that if you introduce some such bill as this, you will precipitate sentiment and you would discover whether the public wanted branch banking.

It seems to me it is the most important issue we have before the public and I am hopeful it will be solved before it becomes a political issue.

If you can get at it while it may be appreached in a judicial, reasonable and constructive way, I think something may be accomplished, but I am frankly frightened at what will occur if this trend is permitted to go much further.

Mr. WINGO. I agree with you. My criticism and analysis of the bill are not directed towards ridiculing the effort. It is to drive home the difficulties that confront this committee in undertaking, by piecemeal, to cover a major question like this, which is, after all, a monopoly of credit. I do not think anybody will defend a monopoly of credit, in the abstract.

All of these men come in and insist their chain banks will protect us against a monopoly of credit. The group bankers make the same plea, and the branch bankers make the same plea. So, it is not the question of what you are driving at; it is a question of how you are going to do it.

I notice in your prepared statement you state:

> It seems to me desirable, therefore, that the Government do every possible thing that it can, in justice to the State banks and the Federal reserve, to strengthen and develop the national banks, through which it financed the Civil War and organized the Federal reserve system.

With that abstract statement I think we all agree. We agree with what the chairman is driving at in this bill. When you say you approve the bill, you mean you approve the idea expressed; that is, a check on monopoly of credit through branch, chain, or group banking?

Mr. DAWES. Yes.

Mr. WINGO. Appreciating the difficulties, as you must, from your experience as Comptroller of the Currency, and from your experience in the business world, have you not some suggestion to make how we can maintain, in a practical way, the freedom of credit in the country and the freedom of the machinery of credit from what you call bureaucratic control? Have you not some practical suggestion you can make?

Mr. DAWES. That suggestion of Mr. McFadden's strikes directly at that—control. That is what you are after.

The CHAIRMAN. My thought is a temporary check to this thing until we see what it is all about and then deal with it in some permanent way.

Mr. WINGO. I am simply thinking out loud. It is the practical thing that is disturbing me. It is easy enough for me to pick up a bill that Mr. McFadden introduces and criticize it. I recognize that, but when I possibly appear to be captious, it is simply for the purpose of driving home the difficulties that confront us. You will admit there is almost as much difficulty that confronts us in the business world as in the banking world, or more?

Mr. DAWES. No; I think the industrial combinations have gone about as far as they can on account of the laws. I can not see that there is any law which at the present time would prevent a clever manipulator with enough cash, from legally getting control of all the banks in the country.

Mr. WINGO. But is not that true also in the automobile business?

Mr. DAWES. I know that is not true in the oil business.

Mr. WINGO. Have you any assurance that we will have a Department of Justice that will repeat the dissolution of the old Standard Oil Co.? Is there any tendency now to check combinations? The thought I have is this: Is there not a growing thought, and is it not hammered home to us each day, through financial papers and leading economists who want to preserve the freedom of opportunity in the country—are they not constantly preaching the economies of these great amalgamations and the efficiencies that will result from the wonderful reduction in cost flowing from mass production? Is not the whole psychological pressure operating not toward checking consolidations but toward encouraging consolidations, telling the people they will get a finer product and greater volume and greater prosperity and greater wage scales and higher standards of living? Is that not the whole psychological trend?

Mr. DAWES. Yes, sir; but the quantity-production theory has nothing to do with banking and that is the thing that makes it particularly difficult for me to understand the analogy. It costs the big bank as much as the little bank to operate. In fact, in many ways it is less efficient.

Mr. WINGO. Last night I ran across a statement that Mr. Hoover made a few years ago, while he was Secretary of Commerce, and the thought he expressed is that you reach a point in your consolidation where efficiency is lost and inefficiency creeps in on account of the cumbersomeness of the machinery. I read that in one of Mr. Hoover's utterances, and I was delighted to see it.

I had entertained the same thought but was fearful of expressing it around the table here for fear I would be suspected of injecting politics and being out of touch with the times, but with such a high economic authority as Mr. Hoover, I am not now afraid to express the thought. Do you feel that way about that?

Mr. DAWES. Yes, I do.

Mr. WINGO. Here is another thought that has occurred to me, on which I have been told my fears are unfounded: As I look around and study these men who have been handling these combinations—men like Judge Gary and others—I find that they have practically grown up with the development of these great machines and developed along with them. Now, as these men pass off, I am wondering if you will have enough practical and capably trained executives strong enough to carry forward these great activities, so as to maintain an efficient and sound business structure?

Mr. DAWES. I do not think the men who follow and carry on these business enterprises are as able as the men who founded them.

Mr. WINGO. That is practically another way of stating the old theory that there are only three generations separating shirt sleeves from shirt sleeves?

Mr. DAWES. Yes; you might put it that way.

Mr. WINGO. You do not think there will be men efficient enough to carry on these great operations?

Mr. DAWES. I do not think they will have the training and executive ability to carry on as the former generation.

Mr. WINGO. I mean having the acute executive comprehension necessary in handling these great organizations. In other words, you can not send them to a training school like you can an accountant and develop them; it is something that has to develop, and that is the reason you believe in the individual unit banking system?

Mr. DAWES. Yes.

Mr. SEIBERLING. I have just a few questions. Mr. Dawes, the objective of your statement is that you want to avoid monopoly of money and credit on the one hand and you want to get sympathetic and human consideration for the small depositor and borrower on the other hand?

Mr. DAWES. Yes.

Mr. SEIBERLING. You do not think that that can be reached through chain or group systems of banking and you even go so far as to say branch banking also?

Mr. DAWES. No; I do not think so.

Mr. SEIBERLING. Now, let us assume that you have 10 large banking institutions in Chicago and they are permitted to go into branch banking in the area around Chicago, and they succeed in taking over most of the unit banks: The stock of these banks is listed on the Chicago Stock Exchange and all individuals in that territory would have the opportunity of acquiring the stock in the various banks.

Mr. DAWES. Well, I think so.

Mr. SEIBERLING. They would have the opportunity of acquiring the stock in the various banks, would they not?

Mr. DAWES. Yes.

Mr. SEIBERLING. And as far as being stockholders is concerned, then, the local unit branch would be just as much a stockholder as if they were unit banks in their communities?

Mr. DAWES. Yes.

Mr. SEIBERLING. They would have greater safety for their depositors?

Mr. DAWES. I think that is more or less debatable.

Mr. SEIBERLING. We had a witness here yesterday who testified that they loaned more money in the territory where some of their branches were located than their total deposits. In one case it was 50 per cent. So, if branch banks were conducted in that way, the objection they would withdraw money from the outlying districts into the center would not be correct, would it?

Mr. DAWES. Well, I would rather, instead of answering your questions one at a time, answer more comprehensively——

Mr. SEIBERLING. You may answer them any way you want to.

Mr. DAWES. I grew up in a small town, and if the banks were owned in Chicago, Cleveland, or Cincinnati, I do not believe I would receive as much sympathetic attention from them as from people who lived in that same small town. I have had enough opportunity to observe the operations of the railroads to know what sympathy is extended by the railway agent——

Mr. SEIBERLING. The railroad situation is not like the banking situation at all. If you do not like the railroad, you can not build another railroad. But a branch bank that continued for any length of time mistreating its local customers, would soon have local competition?

Mr. DAWES. I do not think they would eventually. I think after branch bank systems had been developed up to the point where there are only three or four of them in a State the inefficient banks would be eliminated and competition destroyed.

Mr. SEIBERLING. But a bank must deal with its borrowers and depositors in the right way in order to grow.

Mr. DAWES. The unit bank; yes, sir.

Mr. SEIBERLING. And also the large mother bank of the system, if I may describe it as that——

Mr. DAWES. As long as they had competition; yes.

Mr. SEIBERLING. And even though it did not have competition, the fear of competition would compel them to do that, would it not?

Mr. DAWES. Well, as I say, as long as they have actual or potential competition.

Mr. SEIBERLING. Of course, as a matter of fact, from the witnesses we have had here, they do not operate in the manner in which you have itimated. They leave the local managements in the branches who have always lived in the communities.

Mr. DAWES. Well, the branch banking game is very new in this country and I think if you will investigate the branch banks in other countries you will learn a better lesson than by examining the bankers here.

I remember a friend of mine, an Englishman, who came to this country from Canada, and he heard my argument about this branch banking. He said, "That is the reason I am an American." He said, "I came to a western Canadian town and did not have any money and I wanted to go into business. I went to a branch banker but he could not loan me it. So, I came to one of the western towns of the United States and went to the head of the bank there and got the money and I have stayed here ever since." He said, "Perhaps from the strict banking standpoint I was a pretty poor risk," but he eventually developed into a valued customer.

Mr. SEIBERLING. Showing that bankers sometimes make mistakes. In view of the fact that something must be done, is it not a fact that branch banking, limited as you think right, would be a much better step than permitting group and chain banking?

Mr. DAWES. I prefer branch banking to any other form of group banking, but I think the fundamental principle is the same. The mechanical application is different.

Mr. SEIBERLING. But if you have to make the step, then the better step is to go to branch banking with such restrictions as you want to put around it, than to permit chain and group banking to go on?

Mr. DAWES. I do not think the issue is between branch and chain banking, but between coordinated unit banking and branch banking. I think I agree with Mr. Giannini, in that feeling.

Mr. SEIBERLING. Do you consider a holding company that owns the capital stock of 15 or 20 or more banks as being in the banking business?

Mr. DAWES. If it owns control of them?

Mr. SEIBERLING. If they own control of 15 or 20 banks and are running them. Do you consider that company in the banking business?

Mr. DAWES. I am not a lawyer, Mr. Seiberling. I can only make the obvious answer to that. I really do not understand just what you mean.

Mr. SEIBERLING. If you had a company that owned the stock of a dozen different banks and you were running them through that stock control, would you consider that you were running a banking business or some other business?

Mr. DAWES. I think it is perfectly obvious you are in the banking business.

Mr. SEIBERLING. If we passed a law that any corporation owning more than so much stock and owning more than one bank would be considered in the banking business and would have to have its charter state it was in the banking business and comply with the banking laws of the country, would you not think we would be taking a long step toward stopping chain and group banking?

Mr. DAWES. Yes, sir.

Mr. SEIBERLING. We would at least have the double liability in the holding company stock?

Mr. DAWES. Yes, sir.

Mr. SEIBERLING. If we had branch banking extending beyond State lines, that would tend to bring these State banks into the national banking system, would it not?

Mr. DAWES. I think it would.

Mr. SEIBERLING. Is it not desirable to have the Federal Government, that has the only power to coin money and issue circulating medium, have those banks under its control rather than under the control of a group of men off somewhere, whose responsibility we do not know and whose motives we do not know?

Mr. DAWES. I have developed the argument many times on the desirability of the maintenance of the national banking system on account of its governmental connection.

Mr. SEIBERLING. I just want to ask you one more question. Why did the Legislature of Illinois repeal the usury law on call money, if you know?

Mr. DAWES. I do not know. I did not know that they had any.

Mr. SEIBERLING. Could you venture any reason for it?

Mr. DAWES. No; I do not know anything about it.

Mr. GOLDSBOROUGH. Mr. Dawes, I was not here when you made your statement. However, I gather your view is that this branch banking will first become extremely powerful and then monopolistic and then inefficient and there will be a public revolution against it. Is that what you have in mind?

Mr. DAWES. Yes, but I would rather you would not put as strong terms as that in my mouth.

Mr. GOLDSBOROUGH. I want you to modify them, then, any way you see fit.

Mr. DAWES. I think those inferences may be drawn within reasonable limits.

Mr. GOLDSBOROUGH. Now, Mr. Dawes——

Mr. DAWES. Mr. Goldsborough, I do not know how you keep these records. I do not want to be put on the record as having made just that statement.

Mr. GOLSDBOROUGH. The reporter is taking down what you are now saying.

Mr. DAWES. Then I will modify what I have said by saying that my paper speaks for itself. I do not want to place myself in the position of having made an unqualified and extreme statement on anything.

Mr. GOLDSBOROUGH. Now, the argument has been made here in this committee and on the floor of the House ever since I have been in Congress that we had to extend the privileges of national banks in the matter of branches because that was the only way to give them a proper competitive basis with the State banks. The argument has recently been made very strongly that we must extend the branch banking privilege of national banks in order to stop chain banking and group banking. As far as I have been able to visualize it, those are the only two major arguments that have been made with the exception of the failures of the unit banks mentioned here to-day.

Now, on January 9, with those condition in mind, I introduced a bill which would amend section 5144 in the matter of the election of directors, or at least one section would. It reads:

In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock held by him: *Provided,* That where a corporation is a shareholder, neither such corporation nor any other person, firm, corporation, or association shall be entitled to any vote or votes on the share of stock held by such corporation.

The purpose of that was to do away with the holding company.

Then, in another section, this bill says:

No State bank which is a member of the Federal reserve system and which owns shares of stock in any other bank shall vote such shares of stock, or cause or permit such share of stock to be voted, at any election or meeting of the shareholders of such other bank.

Then a question arose as to how to control the State banks not members of the Federal reserve system. A section was added like this:

Bank checks: On each check drawn upon any bank, banking association, trust company, or savings bank (*a*) which establishes any branch after the passage of this act, or (*b*) more than 25 per cent of the stock of which is owned by any corporation, a tax of 2 cents on' each dollar or fractional part thereof of the amount for which such check is drawn.

Now, what comment if any can you make on that bill?

Mr. DAWES. I do not think I can make any intelligent comment on it until I have studied it throroughly. I do not know the points of law involved.

Mr. GOLDSBOROUGH. I am not discussing with you the legality of it. I have to be responsible for its being legal. But assuming it is legal, what do you think of the bill?

Mr. DAWES. Frankly, I would not want to express an opinion. It would require too much study.

Mr. GOLDSBOROUGH. The bill, as it stands, would absolutely stop where it is group banking as it now exists, chain banking as it now exists, and branch banking as it now exists.

Mr. DAWES. Well, you know where my heart is on that subject. If that is the best way to do it, I am for it. I am not trying to dodge answering the question. Frankly, I just can not understand it.

Mr. GOLDSBOROUGH. It is perfectly obvious if the holding company can not buy the stock of a bank, it would automatically dissolve itself. That is the purpose of the first provision.

It is also obvious that if banks had to pay 2 cents on each dollar or fractional part thereof of every check that it issued, it could not afford to establish any branches in the future, nor could it afford to act as a holding company and own more than 25 per cent of the stock in the other banking institutions.

Now, I am not committed to the bill, but the purpose of that bill is to answer the two arguments that we had to have branch banking in order to stop holding companies and these chain banks from growing and the other argument that we had no way to stop the establishment of branch banks within the States. This bill will do both of those things, assuming it is legal.

Now, would you be in favor of legislation that wide in scope?

Mr. DAWES. My opinion, Mr. Goldsborough, would not be worth anything on that.

Mr. GOLDSBOROUGH. Well, then—I will ask you this question and you may answer it if you fell like answering it. It does not make any difference to me whether you answer it or bot—but are you or are you not in favor of stopping group, chain, and branch banking right where it is?

Mr. DAWES. Yes.

Mr. GOLDSBOROUGH. That is what this bill does.

Mr. DAWES. That clears me of any apparent disposition to evade.

Mr. GOLDSBOROUGH. And your theory is that inefficiency in the branch banking system does not necessarily immediately mean resumption of competition?

Mr. DAWES. I think after the chains are thoroughly established and unit banks are eliminated to a certain extent, at least, the chains can go along and be pretty inefficient.

Mr. GOLDSBOROUGH. If they acquire that much strength and power, it will require a very great inefficiency before there is sufficient public mental revolution to create competition for them?

Mr. DAWES. Yes; I agree with you and, by inefficiency, you are not referring to the mechanical operation. You are referring to the service to the public?

Mr. GOLDSBOROUGH. The technical part and mechanical part, as far as I am concerned, will take care of themselves, if we establish correct principles. That is the way I feel about that.

When I speak about "inefficiency," I mean inefficiency in the sense that the public which should be served by institutions are not served with the same amount of personal interest as they would be served under the unit system. That is what I mean by "inefficiency."

Mr. DAWES. Having in mind the fact that the banks are given money which already belongs to the community?

Mr. GOLDSBOROUGH. Yes. That is all, Mr. Chairman.

Mrs. PRATT. Several witnesses who have appeared before this committee have been, I think, exponents of the idea that credit was perhaps too much centralized in New York and that it was desirable to establish centers of credit throughout the country. I think there is some feeling that branch banking would do that in a certain degree. Are you in facor of decentralizing credit more than it is now? Do you feel that the concentration of credit is too great, perhaps, in one or two places, primarily in New York City?

Mr. DAWES. I do not think that their suggestion was that the decentralization would come through the branch banks. I think the idea was that the decentralization would be brought about through the Federal reserve banks. I do not think they could accomplish very much in that direction by branch banks. If they do succeed in establishing nation-wide branch banking, I think it will lay the way open for immediate further centralization, and whether that centralization will be controlled from New York, St. Louis, or San Francisco will be immaterial. I think that will be the eventual outcome, and I do not think there is any difficulty in getting credit over the country generally for people who are entitled to it. When they say they go to New York for money, they really do not go to New York for the money. They go to the technical organization there, which secures it from the banks of the whole United States.

I think there has been a great deal more buncombe about that than anything I know of.

Mrs. PRATT. In a small community, where they have a unit bank and the community is perhaps too small to support a successful bank, nevertheless that community is entitled to banking service of some sort. How would you suggest meeting that situation?

Mr. DAWES. I do not know of any community that can not afford to support a bank that is entitled to it.

Mrs. PRATT. Do you not think they are entitled to it?

Mr. DAWES. If they are entitled to it, they can furnish it themselves. I think any community entitled to a bank will eventually get it. The unfortunate thing is that they have been supplied not with one bank but with five or six banks.

Mrs. PRATT. Banks fall somewhat, do they not, into the category of public utilities?

Mr. DAWES. They will if they build up the chain, group, and branch systems.

Mrs. PRATT. In other words, then, you would keep them out?

Mr. DAWES. They are quasi-public institutions.

Mrs. PRATT. The object is to give service of that type to everyone in so far as it is possible. I am wondering if people who need banking facilities can always afford to motor to the centers.

Mr. DAWES. I think the average person who has not an automobile keeps his money in his sock.

Mrs. PRATT. I notice on the last page of your statement that you say you feel that everything should be done to strengthen the national banking system. I do not see that you make any suggestion to that end. How would you suggest that that be done, specifically?

Mr. DAWES. You have got me there. I do not know. I think that all the help should be given the national system which can be done fairly without penalizing the State institutions.

Mrs. PRATT. You could not be a little more specific, could you, as to how you think the system could be strengthened?

Mr. DAWES. You may refer to some of my old reports, but I do not think they are particularly valuable now.

Mrs. PRATT. You have no present suggestion along that line?

Mr. DAWES. Not now.

Mrs. PRATT. I notice you said a while ago that you feel the Federal reserve system should be made more attractive. Have you any specific suggestions as to how that could be done?

Mr. DAWES. I have not. I think that matter should be approached with such care that I would not want to make any offhand statement. I think there is a very unfair provision affecting member banks. They get 6 per cent on their money, it is true, but I think they should participate to a larger extent in the additional earnings.

Mrs. PRATT. I think you are very sympathetic with the troubles that face this committee. That is all, Mr. Chairman.

Mr. BUSBY. I should like to ask you this question: If chain, group, and branch banking is not entirely a new adventure with respect to its nation-wide activities——

Mr. DAWES. You do not mean in the United States?

Mr. BUSBY. In the larger sense in which we find it.

Mr. DAWES. I think chain banking has always been——

Mr. BUSBY. Oh, I understand back with the first United States Bank and the second one and all like that but not under the holding company method.

Mr. DAWES. I think that is a new development. That is my opinion.

Mr. BUSBY. Most all of the leading groups and the leading holding companies that own groups and chains are of recent development.

Mr. DAWES. That is my impression; yes.

Mr. BUSBY. Do you not think that is one reason why you can present such glowing pictures of their future—the promises they can make to the financial world—because they are new and have not had time to have any of their weaker places or many of their weaker places tested by the trials of time?

Mr. DAWES. I should like to say this, that as far as my observation and knowledge are concerned, most of these companies that have been organized under the holding company system are under the control and direction of very competent bankers and I think they will succeed, but the principle of getting banks together in that way, by the exchange of stock is, I think, one of the most dangerous things ever introduced into banking.

Mr. BUSBY. Suppose there were really watered places in the stock of the holding company exchanging its stock for properties that were established banks that were solvent and going in the surrounding section of the country, that would not likely appear up to the present time, even if they were not entirely sound?

Mr. DAWES. I presume that is so.

Mr. BUSBY. I notice in the hearings held before this committee, Mr. Wakefield, vice president of the First National Bancorporation of Minneapolis and St. Paul, stated, in answer to this question:

> If I remember correctly, you stated you had $22,000,000 in assets and you exchanged that for $30,000,000 for stocks in the holding company.

The reply was:

> Yes, sir.

And then he answered on page 1001 that the $8,000,000 difference between the assets and the amount of the holding company stock received by his banks, represented the good will and earning power of the banks. He also said, "That is a sound basis."

I called attention to the fact that it looked to me like water that went into the stock, but he denied that persistently and said it was good will and earning power of the properties that were put into the holding company.

Mr. DAWES. These are the banks that they are going to make safe?

Mr. BUSBY. All of that being new, of course, we can not tell what the general effect of such differentials as $8,000,000 on $22,000,000 is going to amount to to the people of the country.

Now, I believe it was the State Banking Commissioner of Oklahoma that very forcibly suggested that most all of the bank failures that had come upon us in the last 8 or 10 years were banks which had been organized prior to the period of 1920 and 1921 when we had the deflation which left so many frozen assets in their hands and they had been trying to work out from under the conditions that they acquired during the inflated prices and ultimately found themselves unable to do so.

Do you have any thought along that line?

Mr. DAWES. I think it is undoubtedly true. I do not think anybody will dispute that.

Mr. BUSBY Have there come to your attention the failures of any banks that have been organized within recent months or within the last three of four years—that is, since the holding comapnies and the groups have been so active in getting together—I speak of unit bank failures?

Mr. DAWES. No, I do not know But that is not of any significance, because I do not follow that closely You mean unit banks?

Mr. BUSBY Organized in the last few years.

Mr DAWES. That have failed?

Mr. BUSBY Yes.

Mr DAWES. I do not think there have been any I think the best illustration you can get of the extent to which basic conditions are responsible for bank failures would be to contrast, for instance, the Northwest during this period of depression and some of the States in the East. I do not hold there is very much difference in the ability of bankers in one section as contrasted with another They are all human beings.

Mr BUSBY. You think the northwest territory, in which we have had so many bank failures, was largely inflated in land values during the war, and soon after the war period, when agricultural products were at a good price, banks made loans on mortgages and paper based on those lands and that when the deflation came and the land values shrank, then the banks found themselves unable to meet their obligations or to realize on their loans and that that was largely the cause of the bank failures in the agricultural sections?

Mr DAWES. I can not see that that is a subject for debate. I confess I used to get very impatient when I was here in Washington with the contrasts made between the Northwest and the Florida banker and the eastern and the southern banker I think the difference is largely imaginary

Mr. BUSBY In my section of the country, we have small cities and towns with unit banks. They seem to be thriving and paying good dividends and getting along in their several communities in a first class sort of way Some of the experts who have been before the committee tell us that a unit bank can not operate profitably in a city of less than from six to ten thousand people.

Mr. DAWES. I can answer that readily Look at the statements of the banks operating in the towns under that size. Almost all are operating profitably I have not the statistics before me, but I have no hesitancy in saying that.

Pardon me, however, I want to say that you should draw your dead line. When you speak of towns under 5,000, I do not think you should mix in with those towns the towns of 500 or less. Of course that is not what I mean.

Mr. BUSBY I understand that. I am very much of the opinion that you can over bank any territory and perhaps there are sections of my State and other States, when we did not have transportation facilities and communications such as we have now, where we established too many banks and some are going out of business, from the fact they are not being patronized sufficiently to keep them going.

I believe that is all.

The CHAIRMAN. Are there any further questions? If not, the committee will stand adjourned, with thanks to Mr Dawes.

(Whereupon, at 1.00 o'clock p. m., the committee adjourned.)

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