Branch, Chain, and Group Banking

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES

SEVENTY-FIRST CONGRESS

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UNDER

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TO STUDY AND INVESTIGATE GROUP, CHAIN
AND BRANCH BANKING

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, JUNE 3, 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. Mr. George W. Davison, of the Central Hanover Bank & Trust Co. of New York, is present this morning, and we will be very glad to hear any statement Mr. Davison cares to make.

Our usual procedure, Mr. Davison, is that the witness make such statement as he desires, after which members of the committee may want to ask some questions.

STATEMENT OF GEORGE W, DAVISON, PRESIDENT, CENTRAL HANOVER BANK & TRUST CO.

Mr. DAVISON. Mr. Chairman, I think the most succinct form in in which I could say anything is to give you this pamphlet containing an address I made in San Francisco last October, before the bankers' convention. I am sure you do not want me to burden you by reading it, but I will summarize what I said there, in a few words.

The CHAIRMAN. Have you given expression to any other opinions in regard to this subject, in addition to those contained in the pamphlet?

Mr. DAVISON. I think I was interviewed by a man from Printers Ink, who printed what I stated to him at the time of the interview, which was along about the same lines. If anybody desires me to, I can amplify what I have stated in that address.

The traditions of our country are wholly against any concentration of any power of any kind; particularly against the concentration of banking or money power.

You have only to recall the days of Andrew Jackson and the changes made before the Pujo committee made any report. It only requires a statement of the conditions that then existed to realize how sensitive the people are to conditions of that kind.

I further feel very strongly that the unit bank, the independent banker, in the community, locally owned and locally responsive, has been a tremendous force in the development of our country and one of the essential elements that makes our people different from those in other countires.

I do not think that any comparison can be drawn between the continental countries, with their branch systems, and America, for they have all been brought up to a different manner of thought and are quite accustomed to part of their people being the underdog,

being subservient, and, of course, all of them are, compared to the stretch of the American Continent, comparatively small and cover a very narrow, localized area.

For example, in England the total area of the five great banks is no greater than New York and New Jersey.

I think also you will find that the experiences of some of the large banks abroad have not been such as to justify any of the claims made for branch banking—that it prevents failures and crises. The experience of the large bank in Denmark, even with Government help, was most unfortunate. Probably the economic crises in Japan were very much extended and the development of the country retarded for a long period by the fact you had great banks with Government help which stayed liquidation in 1922, which we had in 1920 and 1921, and it was not until 1927 that the thing broke loose there, but, in the meantime, for five years you had a position of stalemate, with business practically at a standstill.

In Canada there are at least two instances of great banks becoming involved in extreme difficulty.

The suggestion that branch banking is going to take care of the small community—the community too small to support a local bank—I do not feel has any great merit. None of these chains formed thus far have ever been known to take over poor banks. It is not the weak bank they buy, and the change in our own methods of transportation and communication has probably rendered unnecessary the existence of banks in very small communities.

When you come to consider that the failures in American banks have been confined largely to localities in the South and the territory from Minnesota south, you can find a cause quite apart from the general banking situation that gave rise to these results. Both of them were undoubtedly the result of the high prices of certain agricultural commodities during the war, with a consequent increase in the value of the price of real estate, and, of course, the Florida boom was the same thing.

I think some of you must be alarmed by the change that is taking place in the character of some of our communities with the vast extension of chain stores, for they are replacing merchants and men of responsibility with clerks on a small salary who can not advise, and certainly can not support, local charities and public institutions.

Banks are one of the very few corporations which advertise their debts. You see a bank speaks of its total resources, which include all deposits. Of course, their deposits are debts to some one esle. Four-fifths, at least, of a bank's money is money deposited with it by other people and the primary duty, I think, of every bank, is to its depositors rather than to its stockholders. Experience shows that when that duty is well done, it is profitable to its stockholders.

But the first aim of every banker is to know that he is going to be able to pay his debts. There is no doubt chain banking has come because branch banking is still illegal and it started, beyond any question in my mind, as a speculation and promotion matter. It has stopped generally because of the debacle that took place last fall in the price of securities, and except in local communities it is going on now in smaller areas and largely because of fear.

There have been a great many people in talking with me and talking with some of our officers, who are afraid because of the source from

which the suggestion for wider branch banking was made, that branch banking is going to come, and they do not want to be taken over by some foreign and remote group, and they are combining, as a measure of defense and not from any desire or belief in an extension of branch banking.

I think I have summarized pretty well the things that were in my mind. I have been very brief, and I shall be glad to elaborate my views if the committee desires on this subject, and, if you desire, I will send a copy of this pamphlet to every member of the committee. I have some natural modesty about——

The CHAIRMAN. I am going to suggest that, without objection, this statement of Mr. Davison, which is the speech he delivered in the American Bankers' Association convention at San Francisco, be made a part of the record at this point.

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

In the case of Georgia, you had an instance of chain banking, and when the Bankers Trust Co., of Atlanta, failed, some 80 banks, supposedly independent, went down within 40 hours. Our history of chain banking has been been that when one goes bad the others go.

I do not believe that there is anything that chain banking can do for banking members of its group that can not be done , and is not now being done, by correspondent banks. It was thought when the Federal reserve act was passed that the need for correspondent banks had ceased to exist. The national bank used to carry part of its reserve with its correspondent in a reserve city, but there are many needs that the Federal reserve does not meet for the bank in outlying districts. It has collateral that is not available and I do not think should be available at the Federal reserve bank, and it can send that to its correspondent and can secure funds on that, if needed. It can get and does get advice as to securities, and when it has a surplus of funds it can send them to its correspondent, either to be invested in commercial paper or in loans on call and, in the same way, it has been known and does call on its correspondent for aid when the financial needs of that community are great.

The great difference in that, to my mind, is this, that the local bank sends its funds to its correspondent because it wants to, and not because some one in a reserve city tells them to. It is a transaction between principals and not a transaction between a head of a system and a clerk or employee.

BANKING EVOLUTION IN AMERICA

A DISCUSSION OF MERGERS, BRANCH BANKING, CHAIN BANKING, AND THE UNIT BANK

(By George W. Davison, President, Central Hanover Bank & Trust Co., San Francisco, October 3, 1929)

The privilege of addressing you to-day is deeply appreciated. It is as the head of an institution which has been intimately associated for more than a half century with the work and problems of bankers all over the country that I am venturing to talk to you, and the subject which I shall discuss concerns every one of us. I propose to talk to you about current portents for our American banking future.

What is happening to our American banking system in this era of accelerated speed, innovation, and change? When the dust of the era has cleared away will our American banking system be radically different from the banking system

with which America faced the new conditions at the end of the Great War a little more than a decade ago? What is denoted by the rapid progress of the merger movement for larger and larger banking institutions? By the persistent movement for the expansion of branch banking beyond municipal confines? By the movement for what is called chain banking, obviously an endeavor to establish a compromise with National and State statutory limitations on branch banking? Are all these movements to go on with gathering force and widening sweep until we have a few hundred or even a few score mammoth banking institutions with myriads of branches? Or are we going to preserve our banking system essentially unchanged in form, organization, and control?

These are only some of the questions which we, who are engaged in what is not too accurately called the banking business, are all asking ourselves and one another. The very questions give concern. The implications of an answer in favor of an intense concentration of control in the banking field must give us still more concern because of the basic characteristics of American banking in its historic past and because of the contribution of our banking to the exploitation of American economic resources and the prosperous growth of American enterprise.

The general reason for addressing you on the subject chosen is the common interest we all have in whatever adaptations we should make to fit our activities to the needs of the time and the future. The particular reason for addressing you on this subject is the special interest I have in the work and problems of a great many separate banks. The bank and trust company which I have the honor to direct is the depository and correspondent of a large number of banks. Their interests are our interests. We are the possessors of a pioneer tradition in the establishment of correspondent bank relations, and all the thinking I have been able to do on questions affecting our banking future has centered around some of the most valid conclusions which are to be drawn from the contacts and experiences of a correspondent bank with its depositing banks. When we recall, and recall we can with pride, the encouragement and assistance which the freedom of independent initiative in our highly individualized banking system has given to the constructive achievements of American history and trade and the enhancement of the popular welfare, I am satisfied that all these questions can receive an answer affirming that there is no necessity in our banking, past or present, for a revolutionary change in our banking system in the near or further future.

So that I shall not be misunderstood, I wish to make it clear that I believe in bank mergers, up to the point where they are not restrictive of interbank competition and up to the point where independence can be retained and relations with customers do not become mechanical or stereotyped. I believe in branch banking in limited local areas where the closest kind of contact can be kept with the main office and, of much greater importance, where the main office has a close and exact knowledge of local business conditions and the local people. Regarding it solely as an experimental form of branch banking I shall not argue here against the endeavor to weld banks into chains moored to holding companies which are in turn subsidiary to or allied with institutional banks. One of our great advantages as Americans has been the opportunity offered by our vast geographical extent, by the different qualities of our population, and the different resources of our far-flung land to engage in experiments, political, social, and economic. In our laboratories of such experimentation we have made helpful discoveries. One of the discoveries which we have been continually making is that what was often supposed to be new has not necessarily been new, and, far more often, what was thought to be desirable because it was new has turned out not to be good. It might be asked, in passing, if you go in for buying banks in order to make a chain or to set up branches, or if you go in for mergers for the sake of size, where are you going to stop? These are awkward questions to answer, but at long last I do not argue against experiments in branch-banking expansion, because I believe that we have something else which is better; which argues for itself.

AMERICA HAS THE BEST BANKING SYSTEM IN THE WORLD

What is there about American banking which would indicate that it is in the way of a great change in organization, form, and control? Is there anything fundamentally wrong in the present organization, form, and control? I think not. I believe that to-day America has the best banking system in the world; the most flexible; better adapted than the banking system of any other country to the enhancement of the economic welfare of all its people. What other country can show anything like our highly developed check system for facilitating the

exchanges of its domestic trade? What a tribute to our banking system is our check system which gives such currency to confidence.

Undoubtedly this was not always so. It was not so prior to 15 years ago, when the Federal reserve system was set up. Nevertheless, our banking in our whole history has matched the requirements of American opportunity and contributed invaluably to its realization. Every lesson that experience set for our banks was learned and the teaching was put into effect; whether the lessons taught by the destruction of the first and second Banks of the United States; the lessons of the periods of free banking and wildcat bank note issues; the lessons of the battles for sound money; the long lesson of our panics which finally enabled our banks to convince themselves and so convince the people that our banking system must have some centralized direction, some centralized ability to render solvency liquid, and give fluidity to credit, some coordinating factor of banking power through mobilized reserves; or the further lessons learned in the recent war years as the result of which our bankers, instead of being chiefly brokers in loans, have become dealers in credit for the Nation and the world.

FREEDOM OF INITIATIVE AND COMPETITION SHOULD BE RETAINED

Through all the decades and generations of banking mistake and banking failure the periods of disordered currency, the cycles of boom, panic, and depression, American banking has persistently gone forward and, taught by experience, has suited itself to the demands of each new day. What is there about the record which is to account for this, and why is it that America has, as I believe firmly it has, the best banking system at present for its needs? The answer is to be found in the one universal fact which stands out in our banking history; that our banking has been done by individual banks, locally owned and headed by responsible individuals who were free to make their own decisions and accomplish their own successes, who were intimately associated with the activities of their local communities, thoroughly acquainted with local conditions and local people, and, because the ramifications and contacts of banking are endless, more or less in touch with industrial, trade, and financial conditions elsewhere. I believe that it has been vital to the interests of America that our bankers have had the individual freedom of initiative and competitive action which they have enjoyed (subject to such statutory restrictions and governmental supervision as the popular will has demanded and time has shown to be wise and desirable), and I believe that it is going to be equally vital to the interests of America in the future that the largest possible amount of individual freedom of initiative and competitive action should be retained by our bankers.

The prime characteristic of American banking has been its intense individualism. This used to be true also of American enterprise in trade and industry where it is becoming less true. Reasoning by analogy is always dangerous and never more so than in the attempts to draw analogies between the economic movement toward concentration in manufacturing and merchandising and a movement toward a similar concentration in banking. The character of the service is fundamentally and essentially different.

HOW BANKING DIFFERS FROM BUSINESS

Earlier in these remarks I said that it was inaccurate to speak of the banking business. We know how unlike banking is to the business to which it ministers. The vocations of the banker are far more akin to the vocations of the professions than they are akin to the activities of business. In the case of banking institutions directly or indirectly engaged in merchandising securities there is a resemblance between banking and business, but in my view the merchandising of securities is not an essential of deposit banking. True, the banker deals in money, but very little in real money which is a commodity, and very much in promises and orders to pay money which are not commodities. Real banking is dealing in credit, and credit can hardly be regarded as a commodity. The banker is all the time engaged in exchanging his better-known credit for the lesser-known credit of his customers; or if you like, engaged in giving a circulating quality and a buying and debt-paying power to the credit of his customers on his judgment of their character and resources. Basically, banking is engaged with character, and in this engagement a bank renders service to its many customers. Its earnings are more of the nature of the fees received by a physician or a lawyer than they are of the nature of the money price obtained by a manufacturer or merchant for the goods which he sells. I might add further that the difference between banking and business is indicated strikingly by the fact that the competi-

tion between banks is in quality of service; that there is seldom a question of price; that there is no real problem of cheaper banking for us to solve.

It has often been said that the great fault with American banking has been that there were too many banks. The criticism is important and has its veracity. It is quite likely that during the last generation particularly there may have been a too liberal chartering of national and State banking institutions. With some 24,000 State and national banks and trust companies, we have, it seems to me, a sufficient assurance of banking competition. Because we have had so many separate banks, competition between them has too often conduced to excesses of departure from sound banking principle and wise banking policy. It has also conduced to an excessive amount of uncompensated service by banks generally in the effort to gain or retain deposits. Because of the very multiplication of banks there has been on occasion an undue amount of bank failures. Your retiring president, Mr. Hazelwood, has recently contributed an article to one of the magazines pointing out that the multiplication of banks in communities successfully maintaining one bank, a too liberal chartering by both State and Federal authorities has been the primary cause of bank failures. The remedy for this lies in administration, not in legislation nor revolutionary changes. It is for these reasons among others that I believe in bank mergers—up to a point, as I have already said, and in localized branch banking. Nevertheless, I think that all which our multiplicity of individual banks has cost the banking community and the American people has been a trifling price to pay for the values inherent in and the benefits derived from our individualistic banking and from the maintenance of banking freedom of initiative and competitive action. In no phase of our American life has our individualistic tradition maintained so thoroughly the free play of competition as among our banks. It is that which is primarily responsible for the adaptability shown by the American bank and the American banker to all the changing needs of new conditions and the promise of new opportunity.

BETTER BANKING AND HUGE CONSOLIDATIONS ARE NOT NECESSARILY SYNONYMOUS

One thing we must grant; that as in other economic fields all institutions, organizations, methods, practices, and controls must justify themselves by persistent progress to the best results, so must our banking system justify itself. This is only another way of saying that while we believe we have now the best banking system in the world for our needs we have not attained perfection and never shall; that we must work for still better banking. That the way to better banking lies along the road of a banking system intensively concentrated to the last degree I am not prepared to admit; indeed I am disposed to deny that better banking and huge banking consolidations which tend to reduce materially the individualism of American banking are at all synonymous. Good banking is good banking, whether in the large or in the small, and it is my firm conviction that the best possible banking can be done just as well by the banks in the sparsely settled agricultural regions as by the larger banks of the towns and the much larger banks in the cities. I believe that it is only possible for better banking to be done by banks which are individually free to improve their services as their situation permits; banks which have independent freedom of individual initiative basing their action on their own knowledge of local conditions and their own judgment of local character and credit worth and are at liberty to make their own choice of cooperative affiliations.

It is my conviction that a study of our banking history and of our banking system as it is to-day reveals the lines along which our banking individualism can be preserved. Have we need of importing the organization and practices of other lands, even if they are lands of a much older banking history than ours? I doubt it.

We have come to have a great deal to do with foreign countries and shall have more. We have learned a great deal from abroad and shall continue to learn more from countries and peoples with older experience. Yet what we appropriate from abroad we are most apt to apply in terms of our own experience and tradition and transform it to the requirements of our own more fluid and dynamic life. When our financial education had been carried so far that we were prepared for the legislation which took shape in the Federal reserve act we did not set up a central bank. We provided for a centralized banking system which should be a coordinating factor of cooperation between all of the banks of our entire banking community.

FOREIGN BANKING SYSTEMS AND THE UNITED STATES

The statement, often heard, that we should take lessons from European banking systems and concentrate into a relatively few large banks through the country at large with manifold branches is not well founded. True, it may be wise to strengthen through consolidation and consequent stronger capital accounts within prescribed geographical limits and within localities where kindred interests assure a mutual and related benefit; but the vastness of our country with its great geographical distances and varying sectional interests, pride, and prejudice, presents a problem wholly different from that of any European nation.

The branch manager of the English banks would be unacceptable to the American citizen who wishes always to deal in banking with one whom he regards as having greater special knowledge but his equal in other respects. Small deposits can not here be fed directly to the great urban centers. Tribute and the feudalistic overlord have no place in American banking when the hearts of the people are consulted, and any banking system not approved in the hearts of our people has no place in our present nor in our future. Great changes in system in this country rarely take place by creations at the top; they come from a determined wish in the hearts of the great body of citizenship which eventually expresses itself. We have been too long nurtured on independent doctrines to permit a final concentration of that which in its essence belongs to countless individuals, namely, the deposit account.

Nor can the French system, which centers in Paris, be presented as desirable for us. The leadership of the great banks in France is blindly followed, but where is there a French farmer or local merchant akin to our farmer or local merchant, and where is our small manufacturer or investor akin to the Frenchman of equal rating who relies on Paris and unhesitatingly and unquestioningly follows its banking dictates.

And in Germany another wholly different picture offers. The paternal industrial bank flourishes there, a creation unknown to America until the last few years, when some of our great banks have established adjuncts whereby they have taken a leading part in creating and fostering industrial enterprises. This business is one which must be done, but whether by banks of deposit or their adjuncts or by private entrepreneurs is for the future to determine. It seem certain that the banking institution which is prejudiced by its own creations can not be the choice of the independent local banker as a depository of his reserves or his surplus funds and that the accumulations of capital represented by deposit accounts in all sections of the country which should be maintained in as liquld a form as possible will not, without the independent local banker's consent, be used extensively in promoting industrial undertakings.

BANKING INDEPENDENCE SHOULD BE MAINTAINED

So it would seem that no European system has any real part in our banking life as a whole, although we may select from it whatever may be suited to aid or to balance our own devices or ideas. We have worked out over a long period our own banking development. It has been steadily improved and there is encouraging room for further improvement; but it has always maintained the independence of its individual parts, be they large or small, and we are not ready to surrender our independence. The larger will become larger and, we hope, stronger. The smaller will become larger and, we hope, also stronger, but independence in the best meaning of the word and within proper local areas should be cherished and maintained. Strengthen the smaller bank, unify and consolidate within localities, foster direct dealings between clients and those bankers who have their own money at stake and take just pride in the prosperity of their surrounding territory. That plus a close and friendly association with a reserve city bank earned by years of affiliation is the ideal situation.

THE HOLDING COMPANY

What shall we say of the development of the holding company for the ownership of bank stocks if its avowed purpose is only to control banks throughout the country and direct their policy? Even as an interim step toward a branch banking expansion which may be legalized I believe it to be a development without promise. The banker far and wide throughout the United States can not take kindly to the ideas which it embodies. Is it to be carried out to the point where our bankers are asked to divide themselves; on the one side those who wish to control the vast power of much money for purposes of their own and on

the other side those who cherish independence of thought and action joined to close relationships more intensified even than in older days with correspondents bound together as partners in aims and ideals who have their own money and reputations at risk and who believe in the independence of their territory and depositors? If so it is with this latter class that we wish to align ourselves and to serve them to our utmost ability in fraternal partnership. Do we want to see banking become so monopolized that a given section shall be visualized as a source of tribute only with its industries and merchants not regarded as individuals and with a remote control able to lay its heavy hand on local industry and trade?

Trusteeship is becoming a common and much overworked word. It is to be feared sometimes the part it occupies and must ever occupy in our relations to our customers and depositors, if not overlooked, is not sufficiently emphasized. Our primary responsibility as bankers is to our depositors who have intrusted us with the care of their funds. Experience has shown that this responsibility when well exercised can be profitable to stockholders. Possibly at times the profit side of the matter is too much in mind. We are among the few corporations who boast of their debts, the loans to us by our depositors, called deposits. The strength of the capital structure and its relation to deposits is apt to be submerged in the grand figure of "total resources." The duties and responsibilities owed by us to our depositors are very real and our care should be how best we can serve those who have become our customers. That it is a trusteeship in a very real sense with all the implications of the word can not be stated too strongly.

I have been surprised since reaching San Francisco to learn how great a part the price of bank stocks is playing among the group and chain people. Time was—and will be again, I am confident—when it was not considered becoming in a banker to be concerned in the selling price of his bank stock, much less to be active in the market for it.

Almost on my arrival a man came to me and asked if I remembered his offering me control of a bank within a year. I did and he gleefully told me he had sold it for two and a half times that price to a well-known group. He had hardly left when another told me of the difficulty a recent group had had in maintaining the price of their stock and how much stock they had to take in doing so. Another sale at twice its market value was then reported.

Have we here some explanation of the purpose of group and chain activity—immediate market appreciation—and little, if any, regard for intrinsic values, earning capacity, and the customers of the bank on whom with good management the future must depend?

WE NOW HAVE MORE THAN THE EQUIVALENT OF FOREIGN BANKING

I contend that we already have in our banking system what I believe to be more than an equivalent of foreign branch banking and its development will be consistent with our traditions. Long prior to the creation of the Federal reserve system banks throughout the country established relations with banks in the principal cities as depositories for portions of their funds; as correspondents who could be consulted about all kinds of problems and to which the depositing banks could turn for cooperation in meeting the credit requirements (and for many decades the currency requirements) of their vicinities. While the establishment and development of these correspondent bank relations began with the national banks as a direct result of the provisions of the national bank act for the deposit of certain percentages of reserves with banks in reserve and central reserve cities, the need for these correspondent bank relations grew far beyond the needs for reserve depositories alone. Proof of what purpose these correspondent bank relations served was furnished by the action of State banking institutions which also established their position with strong correspondents and this proof has been emphasized by the experience we have had since the Federal reserve system began to function. One of the contemplated purposes of the framers of the Federal reserve act was to do away with the deposit of reserves in correspondent banks and to "keep bank funds at home." Have correspondent bank relations ended? Most certainly they have not. And why? Because correspondent banking has grown to meet needs and requirements of our banking community which have cemented correspondent and depositing bank relations almost indestructibly.

CORRESPONDENT BANKING VERSUS BRANCH BANKING

It is to correspondent banking, if I may be allowed to use a phrase which carries its own definition to all bankers, that, in studying our banking history and our banking system as it exists, my thought turns for the assurances that

will safeguard and preserve the individualism of American banking which, I believe, we all regard as indispensable to the health of the American economic future if we as bankers are to serve our people as well in the future as we and our predecessors have served them in the past. The growth of correspondent bank relations is a normal economic evolution of the individualism of our banking. I think that the line of advance to still better banking and the provision of a complete service suited at all times to make its contribution to the realization of American opportunity and the diffusion of increasing prosperity lies in the normal evolutionary development of correspondent banking.

Branch banking, should it become legalized, may possibly give us better mechanical banking. Nobody knows better than we do that banking is not an enterprise of formulas and machinery. It is profoundly involved with the human side of life, with people engaged in the business of making a living. Let us have all of the better banking machinery that our ingenuity can devise and our judgment approve, but let us not place our confidence in the perfection of banking mechanism, for if we should our banking system would become increasingly rigid and lose the flexibility which is indispensable to the service that banks have to perform. For the preservation of that essential flexibility I believe our correspondent banking to be most admirably adapted.

Our correspondent banking safeguards the individual initiative and the independence of banks everywhere. It is questionable if extensive branch banking is compatible with the preservation of the values which our individualistic banking system has fostered. Correspondent banking certainly is compatible with the preservation of these values precisely because it has fostered them. I think it almost not too much to say that close relations formed by the independent banks themselves with strong institutions of their own choosing in the financial centers of the country, now more than ever, can contribute to the protection of those popular liberties which are associated with our American tradition of the independence of the individual and the right of every individual citizen to equality of opportunity. It seems to me that in these days of economic concentration and consolidation our banking system, with its continuing achievement of increasing cooperation by thousands and thousands of independent banks, exemplifies more than does any other form of our economic institutions the basic American idea. That idea has been illustrated in our national attitude toward other nations, governmentally interpreted and expressed. Our position in the world to-day is not one of isolation and aloofness; it is a position of entire independence of entanglements of formal alliance but of a readiness to cooperate for the advance of every essential interest of the world. This, it seems to me, has been the relation which our banks hold toward each other and toward the American public, and I believe that the development of this sort of banking can go on to make the position of our banking system still more effective as an exhibition of cooperative independence.

I am sparing you statistics. There is little significance in the total number of banks that can now be counted in an extension of branch banking beyond strictly limited localities. The figures of branch banking expansion which are frequently cited are small when set against the thousands of banks grouped together in relations with correspondent banks. Statistically stated the branch banking movement to date is very limited. Its import is all that I am considering here. The point which I seek to make is that we have not perceived the potentialities of correspondent bank relations and that it is imperative to perceive them and to take steps to realize them. All the separate banks in our correspondent bank groups have perhaps only a little less in the way of active relations with each other than have the branches of any one of the great banks abroad where the principal relation of the branch is, after all, to the head office. Precisely the principal relation of our depositing banks is to their correspondent banks; but is there any reason why relations can not be cultivated between the depositing banks in a group headed up by the leadership of correspondent banks in reserve and central reserve cities? I would like to have you direct your thought to the answer which should be returned to this question and in thinking of it I am sure that many things will occur to you which can be done to extend and improve correspondent bank relations so that if I may paraphrase in part and in part quote the language of the constitution of the New York Clearing House Association, the interests of the correspondent banking groups may be promoted and so that all banks associated in correspondent bank relations may assure the "maintenance of conservative banking through wise and intelligent cooperation."

WIDENING THE SCOPE OF CORRESPONDENT RELATIONS

Tell us how we may all work together for such a purpose and what we, as correspondent banks, may do to help you give a more complete service to your communities. In what new ways may we cooperate with you to strengthen your own independent position? If you are adding to your service and building up trust departments, for example, can we help you out of our long and large trust experience? Can we help you to make sound loans which are the real guarantee of bank deposits? Can we help you to make sound investments and keep your investments liquid? Should there be conventions of depositing banks under the leadership of the correspondent banks with which they are associated so that out of such conventions may come closer affiliations between the depositing banks themselves? Should there be some form of conference committee in each such correspondent banking group which can act as a clearing house for the ideas and problems of members of the group? Customarily the banks which are members of the Federal reserve system call public notice to this membership in their letterheads, their literature, and their advertising. Do you or should you, as depositing banks, in the same way set forth the names of your correspondent banking institutions?

The service which correspondent banks render to their depositing banks is well known. There is ample room and a beckoning opportunity to build up stronger and closer relations of mutual helpfulness to better service by our entire banking system. Good banking has had to be done in the local communities by the banks which have established good relations with correspondents in reserve and central reserve cities. The nature of the balances maintained by the depositing banks, the quality of the loans and discounts offered to the correspondent banks as excess lines or rediscounts, the way in which loans are handled by the depositing banks; all that goes to constitute the record of correspondent relationships makes for good banking everywhere. It certainly makes for as good banking all around as could possibly be the result of destroying the individual integrity of banks by absorbing them as branches under a distant control. So far as concerns the solidarity of the banking community, the historical relationships of correspondent banks are cemented by strong, invisible ties of loyalties and business friendship arising out of years of fair and honorable dealing and mutual confidence. What ties of branch banking can be as strong as these? What can we do to make stronger the ties which bind together men proud of their independence, their individual integrity, and their freedom of action?

The relations of depositing banks to their correspondents have been a normal, natural evolution encouraged by the spirit of our banking laws and the political and economic traditions of our country. These relations have fostered the initiative and independence of our banks everywhere. The independently owned and controlled bank can do far more in serving its particular community than a bank owned by distant interests. All the knowledge and confidence derived from local contacts can not be translated into terms understandable by some controlling authority at a remote point. I propose a resolute endeavor to make the largest possible and most effective use of correspondent bank relations and in making such an endeavor we can rest our confidence in an expectation of success on the sturdiest of foundations.

THE INDEPENDENT LOCAL BANKER CAN NOT BE REPLACED

In banking nothing can take the place of the man on the ground who knows local conditions and the men with whom he is dealing and has the power to make his own decisions under a responsibility owed only to resident ownership control. Also, and I would like to stress this, we American people have a deep-seated distrust of concentrated power, especially concentrated financial power, money power. This distrust has often been latent for long periods; but however dormant, it has been there. It was that which made it possible to destroy the first and second banks of the United States. It was that which less than two decades ago threw the country into the turmoil of the "Money Trust" investigation. Let us not forget that in the statute books of the Nation and of the States we have laws against excessive concentration of economic power. They have been invoked in the past and can be invoked again. They can be amplified and be equipped with more iron teeth. Our annals show that the invariable accompaniment of any protracted period of economic depression is a fresh political lurch in the direction of just such legislation and a fresh invocation of its enforcement. Just now there are no signs of an impending period of economic depression but it

is reasonable to expect that some day it will come. If we as the men charged with the wise administration of our banking system, because we are charged with the wise administration of our own banking institutions, should allow ourselves to be guided into courses alien to American traditions we may reckon upon hearing in such a period of depression the voice of the specious political agitator calling for "more socialized banking."

We as a people, have, in the long run, and will always, in the long run, interpret equality of opportunity not as meaning a chance for everybody to be a hired man but as a chance for every American who has the ambition, will, and ability, to become the owner of his own business, run his own show, be his own boss. I know of nothing in our national economy which seems to me to stand so signally for the preservation of equality of opportunity as our individual banking system. Individualism is being submerged in other economic fields, as it is in politics. Our banking system is the stronghold of individualism. Economically, it may yet be the last citadel.

Preservation of the individualism of American banking rests, in the last analysis, in the individual banker. He can save his individual freedom of independent initiative only by furnishing the most complete and best possible banking service to his community in accordance with sound banking principles and wise banking policies. He can help himself to this end by availing himself of all the possibilities which correspondent banking offers, and I pledge my institution to your assistance in such a cause.

The CHAIRMAN. Mr. Davison, your summary here this morning is a very complete statement.

Mr. DAVISON. Thank you.

The CHAIRMAN. You call it a summary, but I think it is one of the most intelligent summaries that has been presented to this committee, and we appreciate your coming before the committee.

Mr. DAVISON. You know how sorry I am that there was any misunderstanding about my appearance here.

The CHAIRMAN. We are having some difficulty in getting men who represent the viewpoint you represent to appear before the committee and present the difficulties and the views of that class of banks, and I am sure you can recognize the reasons for that.

Mr. DAVISON. I think you will find it a much larger element than is thought. A great many are really anxious and fear they have to do something.

The CHAIRMAN. Realizing the importance of this study to banking in the country at this time, we are trying to do the job and we are trying to get all the information we can. We have only a few more days, because our authority ceases with this session of Congress. However, we are trying to get all the information we can during the session so that if legislation is necessary it can follow at the next session of Congress.

In view of your statement and in view of the fact also that you are the head of one of the larger banks in New York City, your statement is particularly interesting. It is interesting in this respect to me, at least, because there has been a fear throughout the country, in years gone by, of the possible centralization of banking in New York, and you, representing one of the largest institutions in New York, rather confirm that view.

It is evident to those of us who have been hearing statements from the heads of the large group or chain banks that have been developed that they are building up a condition in trade areas throughout the United States which is taking from New York some of the business which otherwise would naturally come to New York as the money center.

In view of your stated opposition and your well-known attitude on this subject, I should like to have you tell us about the Central Hanover Bank & Trust Co. of New York. Will you put into the record, if you have it, a statement of the bank? If you do not have it with you, will you insert it in the record?

Mr. DAVISON. Our bank has a capital of $21,000,000, a surplus of $69,000,000, and undivided profits of about $25,000,000, the deposits running from four to five hundred million. We have a number of correspondents throughout the country and we do a general banking business. We do a great deal of foreign business with most of the countries of Europe, except Russia.

The CHAIRMAN. Have you any branches or any affiliated companies?

Mr. DAVISON. We have no affiliated companies. We have branches within the Borough of Manhattan only. We have a very large trust business, bot corporate and personal, and safe-keeping.

The CHAIRMAN. You see a distinction between branches within the city limits and branches within the trade area or the Federal reserve district, or nation-wide, do you not?

Mr. DAVISON. I certainly do. I think that experience has shown that branch banking within a locality is a service to the community. We have shown that we know how to do it and do it well. The head of the bank must be in constant touch with all conditions, and you are not so remote that it is not a matter of policy that is determined by the head from actual knowledge rather than based on reports made from remote or far-distance districts that guide him in making policies.

We do not issue or sell securities, nor have we any affiliated companies that do anything of that kind.

The CHAIRMAN. Your relationship with any and all banks is that of correspondent?

Mr. DAVISON. Absolutely.

The CHAIRMAN. Is there any more connection between the Central Trust Co. of Chicago and your institution?

Mr. DAVISON. None at all.

The CHAIRMAN. Than with any other?

Mr. DAVISON. Not at all.

The CHAIRMAN. There is no connection there?

Mr. DAVISON. No, sir; none at all. I am afraid we are not principal correspondents.

The CHAIRMAN. I know there has been a suggestion made in the past that the two institutions were connected.

Mr. DAVISON. Not at all. General Dawes has been a great personal friend of both myself and my predecessor.

The CHAIRMAN. It will be interesting to the committee, in view of the fact that so many banks throughout the country have affiliated companies, to know why your institution has not gone into that branch of the business.

Mr. DAVISON. The affiliated company, in the first place, I think, started because national banks were unable to buy stocks. We do a very large personal trust business, probably larger or as large as any bank in the country. I have always believed that the way to avoid sin is to avoid temptation, and I am better able to serve those trusts which have been committed to our care by not having anything to sell.

I have always been afraid of the ability of a man running a bond or securities department to sell them to our people as well as to outsiders, in case things get sticky or slow, and I have avoided any possibility of being in the business or having something to turn over to people who have intrusted us to make the best decision without any self-interest.

The CHAIRMAN. There is pending before the committee, and of course it is a matter that has been referred to frequently in the hearings, a question of giving the examining authority, the Federal reserve system or the Comptroller of the Currency, the power to examine affiliated companies connected with national banks. I gather from what you have said you also think that that would be necessary.

Mr. DAVISON. I do not see where there could be any objection to that.

The CHAIRMAN. Of course it would be very difficult to examine a national bank unless they examined the affiliated company.

Mr. DAVISON. Beyond question.

The CHAIRMAN. In connection with this study, Mr. Davison, it is quite important to the committee to know who controls these large banks. Will you have any objection to furnishing us, as was furnished to the Pujo committee during that examination, a list of your largest stockholders?

Mr. DAVISON. No.

The CHAIRMAN. If you will furnish that to the committee, it will be for the committee's confidential use only.

Mr. DAVISON. I do not think there is any stockholder in the Central Hanover Bank & Trust Co. who owns over 2½ per cent of the stock.

The CHAIRMAN. Then, control in the bank is not vested in the officers and directors of the bank?

Mr. DAVISON. No, sir.

The CHAIRMAN. It is a free and open control?

Mr. DAVISON. Absolutely, and always has been.

The CHAIRMAN. How do you conduct your foreign business? Have you your own agencies abroad? Are they correspondent agencies, or do you have your own officers abroad?

Mr. DAVISON. We have representatives in Berlin, Paris, and London. They are merely agents, and we are correspondents of many of the principal banks abroad and do a great deal of business with them.

The office in Paris, I would say, is merely a service station for those who use our credit when they go abroad. We have found it necessary to open an extra office in London for that purpose. We have a business office in the city that is able to get credit information, and so forth, for us.

The CHAIRMAN. Suggestions have been made from time to time and are pending here now in regard to increasing the line of eligible paper for rediscount in the Federal reserve system. In that connection, we are confronted with requests that we make eligible for rediscount paper growing out of partial payments and to make mortgages, railroad bonds, and good municipal bonds eligible, under certain set out provisions, and so forth.

Is there a dearth of eligible paper to secure the release of the proper amount of Federal reserve credit at the present time?

Mr. DAVISON. Not at the present time.

The CHAIRMAN. Would you favor enlarging the scope to include those lines that I have referred to?

Mr. DAVISON. I would not.

The CHAIRMAN. My analysis has been rather general, but do you agree with that?

Mr. DAVISON. I think that our experience with installment paper is rather meager. I think, after our experience with that type of paper is greater, we may consider that, but I do not know. I think it is still too unknown, although the record of the experience we have had with it has been surprisingly good.

Certainly bonds would simply be opening the door for securities of all kinds, and I do not see that that should be done. There has not been, up to the last few years or the last three or four months, as much commercial paper in the market as we were accustomed to having. I think it has been due to several reasons: One, primarily, corporations have taken advantage of the situation since 1921. A great many were caught in 1921 with large debts, and they were compelled to raise additional capital, but the price of their securities has furnished an opportunity to raise capital without taking on a fixed debt, and most of our great corporations have had money to lend rather than having to borrow, which they ordinarily do, at a bank.

The CHAIRMAN. Do you see any harm in the use of Government securities, short or long term, as practiced now by the banks, in securing Federal reserve credit?

Mr. DAVISON. I think it is invaluable to the bank.

The CHAIRMAN. You approve, then, of the plan now in operation in connection with the release of Federal reserve credit, particularly by banks in New York and other large cities?

Mr. DAVISON. I do.

The CHAIRMAN. You do not think that that makes easier access to the release of that credit than should be?

Mr. DAVISON. No; I do not think so.

The CHAIRMAN. You do not think it leads to any abuse whatsoever?

Mr. DAVISON. I have not seen it. I think it has worked wonderfully well and shown a flexibility that has been remarkable.

The CHAIRMAN. You do not think that that releases credit to stock market speculative operations, through the absorption of brokers' loans by the banks?

Mr. DAVISON. I do not. You can easily see what would happen, however, with a money market such as we had last summer, if the deposits of the whole country, or the outlying sections, were available and the New York banks simply drew them in to loan at the rates money commanded in New York last year.

The CHAIRMAN. I think it was the clearing house rule that permitted banks to make brokers' loans on the market.

Mr. DAVISON. No; the clearing house rules made a charge and recognized a condition that actually existed.

The CHAIRMAN. Was that a stock exchange ruling, that one-half of 1 per cent charge?

Mr. DAVISON. No; a clearing-house rule. The situation grew up from what I told you. Corporations had raised money from their securities for their necessary capital, and under the clearing-house

rules they were getting a low rate of interest, and there was a higher rate available by asking the bank to lend it. I remember eight or nine years ago I refused to do it, but I found I was losing deposits and everybody had to do it, and the clearing house made a uniform charge for it.

The CHAIRMAN. The question was asked some weeks ago, when the Comptroller of the Currency was present, as to whether or not there was any legal authority for them to permit a bank to make these loans and make a charge. The comptroller suggested that he would furnish the committee with the information with regard to that, but he has not done so as yet.

Mr. DAVISON. I do not see what more you need. A bank can act as agent for its correspondent, whether a corporation or an individual, and perform any service that the man asks it to do. That is all they are doing. I do not see what limitation there would be on our doing that.

The CHAIRMAN. The suggestion has also been made to this committee that one of the main causes of this great suction of money into New York from the country during speculative periods is due to the fact that the big banks in New York offered to their customers to place so much of their funds in the market, provided they would keep certain balances with them, and that that has been a method of securing this business from the country which has finally resulted in plaguing the big New York banks.

Mr. DAVISON. I do not think there is anything in that. What I am trying to emphasize is that at the present time the action of the correspondent bank is the action of the bank in the locality. It is not the action of the New York banks or what the New York banks would like. It is what they wanted to do. They are independent, and to sacrifice that I think would be a great sacrifice and would be a menace to our general welfare.

The CHAIRMAN. The Comptroller of the Currency has recommended to this committee, as you know, an extension of branch banking over its present limitations—within the city limits—to a larger undefined area known as the trade area. Would you think it advisable to extend branch banking as he suggests?

Mr. DAVISON. No; I would not.

The CHAIRMAN. Would you extend it beyond the present limitations?

Mr. DAVISON. I think your national bank act has got to provide that the national banks can have branches wherever the State legislation permits State banks to have branches. You have got to do that, probably.

I can see no reason for the extension, and I think if the comptroller's suggestion were followed, you would find a wild orgy of speculation in bank stocks by the bigger banks and by big outlying banks that would make last year's affair pale.

Mr. STRONG. Mr. Davison, I apologize for being late and not having heard your statement, but from what questions you have answered, I understand you are opposed to an extension of branch banking?

Mr. DAVISON. Yes.

Mr. STRONG. The comptroller is advocating branch banking in trade areas, which he says is that circle of territory around the large moneyed or commercial centers that controls the trade of that terri-

tory. In the examination of the Governor of the Federal Reserve Board he intimated that they were trying to work out a system of trade areas in the United States which might amount to 37. He also said that he thought that trade areas would be broken down or at least he said this, that within 50 years, and it might be sooner, we would have nation-wide branch banking. He was followed on the stand by Mr. Giannini, of the Bank of Italy, who favored world-wide branch banking.

We had before us group bankers from Minneapolis, Detroit, St. Paul, Buffalo, and Atlanta. They seemed to think they had reached a proper system of banking and insisted they had improved financial conditions in their territories and they were in a sound condition. I remember that the group banks of Minneapolis and St. Paul had, within the year, gotten together over 100 banks each and insisted that it was a proper and permanent system of banking.

I have just been out to Tulsa, Okla., and Wichita, Kans., addressing the State bankers of those States, and a reliable banker, a man whose word can be accepted, stated he had visited St. Paul and Minneapolis and asked those groups up there what will be the ultimate result. They said, "Oh, well, eventually we will have nation-wide branch banking and we will sell out to New York interests and make several million dollars."

Mr. DAVISON. I think you have put your finger on the main spur to chain banking thus far, and chain banking is simply something they can do when they can not do branch banking. I think there are now groups of chains forming out of fear.

Mr. STRONG. I mention this because I believe the desire for group banking is eventually to make money by selling out to branch banking systems in the great money center, which is New York.

Mr. DAVISON. I have called attention in the memorandum I submitted—I did not put it in the paper which I took out to San Francisco because, while I had it in the back of my head, I did not have enough concrete instances to speak about it, but when I got out there I injected a little memorandum that is contained in the paper which is typewritten here [exhibiting]. The thing that amazed me was the way everybody was talking about the price of bank stocks and the price of group shares and the effort every member was making to maintain the prices. That was all I heard, and there is no question in the world, and I am very firm in what I stated before you came in, that the primary purpose of chain and group banking has been stock promotion and speculation; and if you open the door, you will see some more.

Mr. STRONG. Another thought that comes to me in connection with this whole development, and which these hearings evidence will eventually lead to nation-wide, if not international branch banking, is the proposition you suggest, namely, that the head bank's control of the branch banks destroys the independence of individuals in the community where unit banks previously existed. If we had nation-wide branch banking, that can result in but one proposition; that is, driving out the middle class of people, as it has driven them out in every country of the world where they have had branch banking, and that will destroy the independence of the American citizen which this Government was built to maintain. Do you agree with that statement?

Mr. DAVISON. I do.

Mr. STRONG. I thank you. That is all.

Mr. DAVISON. There was a suggestion, I do not know how true it was, that a premium was being offered to the branch manager or the manager of an outlying branch who could send money to the local center. That is a natural development of that idea, beyond any question, whether it actually happened or not.

The CHAIRMAN. Some of the members of the committee are in quite a quandary as to just what this committee or Congress should do. We are in the midst of this study, and the disclosure of the fact that there is an opportunity for business or for making money has undoubtedly accelerated the development of this movement to chains and groups; and almost daily we are advised through the press of new groups being started, combinations which are attempting to build up stronger positions in this particular line. We know perfectly well that this committee can not act, in a legislative way, until we have completed this study. None of us knows what should be done. We will be very glad, in view of this situation, if you have any suggestion in regard to what we should do, to have you make those suggestions.

I introduced on the spur of the moment, a few weeks ago, when Mr. Ottley was on the stand and somewhat at his suggestion and others, a bill which would tend to limit the acquisition by groups of national banks and member banks of the Federal reserve system, these being the only banks over which we have authority. This bill provided that before any banks or groups can acquire member banks, they should have the approval of the comptroller's office or of the Federal reserve. This was intended as a possible check on improper associations being built up, as there is a limitation in the bill to 10 per cent ownership of the stocks in such banks. Any acquisition beyond that must first be submitted to the Federal Reserve Board or to the Comptroller of the Currency. There has been strenuous opposition to that. It was simply an attempt to obtain some control over such matters until we could decide what should be done in a legislative way, for the best interests of the country. It has been very difficult to find any language which could be introduced into law that would regulate chain banking because, in the final analysis, it comes down to the question of who is fit to own bank stock. Can you give any help along this line?

Mr. DAVISON. I can prepare something and submit it to you. Of course I have not touched on the matter of who is responsible. We have made much of the double liability, and if I form a holding company that holds the stocks of a chain of banks—and the history of chain banking shows that when one goes the others go—you lose your double liability.

The CHAIRMAN. We shall be glad to receive it. If you send it, it will be inserted in the record following your remarks here. I should like to say in addition, that we hope you will be very free in your suggestions to the committee.

Mr. STRONG. And I should like to point out further that while we are engaged in these hearings these banking groups are being formed and being developed.

Mr. DAVISON. Undoubtedly.

Mr. STRONG. In fact, the chairman, in whose opinion I have a great deal of confidence, has stated that within two years we will have branch banking in every State in the Union.

The CHAIRMAN. Here is a clipping from the New York Tribune of May 31, 1930, in which it states:

MARINE MIDLAND GAINS STRENGTH IN UTILITY FIELDS.

At the outset Marine Midland consisted of the Marine Trust Co., of Buffalo, Union Trust Co. of Rochester, and 13 others. The total of 15 has been subsequently increased to 18. The Fidelity Trust Co. of New York, recently acquired, gave the Marine Midland banking chain a foothold in New York City, where it is also planned to form the Marine Trust Co. of New York with initial capital of $25,000,000.

That is an enlargement of the scope over that indicated by Mr. Rand when he was before the committee a couple of weeks ago.

The press also carried yesterday a statement covering the formation of the Caldwell group in Tennessee, embracing $600,000,000 of assets, and there are indications around that other situations are developing, especially in western Pennsylvania, where it is indicated a New York group, the August Belmont group, are organizing a $50,000,000 chain of banks in western Pennsylvania. There is also an indication in Pittsburgh that such a thing is happening, and in other sections, this is rapidly developing.

Mr. STRONG. I would suggest, if I had control, that we conduct these hearings for another year, and that we pass legislation that would prevent this development in the meantime.

The CHAIRMAN. This has a very great influence on the Federal reserve, as now constituted.

Mr. DAVISON. I think Mr. Dawes pointed that out very well in his statement.

Mr. STRONG. Mr. Davison, if this control of the credits of banks and of banks, extends throughout large trade areas and throughout Federal reserve districts, so that the banks are united in control, through group banking, what effect do you think that will have on the Federal reserve banks? Would they not control the Federal reserve banks very largely?

Mr. DAVISON. It is quite possible.

Mr. LUCE. Mr. Davison, I gather from the name of the banking institution you represent, yours is not a national bank?

Mr. DAVISON. No.

Mr. LUCE. Why do you continue as a State bank?

Mr. DAVISON. Possibly inertia, because we started that way. The foundation of the company was two trust companies, the Central Trust Co. and the Union Trust Co. At that time national banks could not do a trust service. The main portion of our business was corporate and personal trust business for a long while.

Mr. LUCE. Yours is an amalgamation of a trust company and a national bank?

Mr. DAVISON. Yes. We merged with the Hanover National Bank last year.

Mr. LUCE. You had at that time the opportunity to continue either as a national bank or as a State bank?

Mr. DAVISON. Yes.

Mr. LUCE. What were the reasons that impelled you to choose the State bank form?

Mr. DAVISON. I think largely our history.

Mr. LUCE. And I infer that you see no practical advantages that either system has over the other?

Mr. DAVISON. Practically none to-day.

Mr. LUCE. We are in this situation: We are now considering this and many other problems that come before this committee and we find ourselves hampered by the existence in this country of one system that seems to be quite beyond our control. Do you expect that the memorandum you contemplate submitting will show us any way in which this committee or this Congress can interfere with your operations?

Mr. DAVISON. As a matter of fact, most of the banks of the country now belong to the Federal reserve system—75 per cent, at least.

Mr. LUCE. Not in number.

Mr. DAVISON. Certainly in assets. We are a member of the Federal reserve system; so that you do control our operations.

Mr. LUCE. So long as you choose to stay in the system, but you can, at any minute, leave the system.

Mr. DAVISON. No State bank has gone out of the system.

Mr. LUCE. I thought our information was quite to the contrary in reference to some Ohio banks.

Mr. DAVISON. I was not familiar with that.

Mr. LUCE. I am informed by the chairman that I was in error about the Ohio banks, but there still remains the fact that, excepting indirectly and with no complete power, we, in this room and in Congress, may not issue orders to you.

Mr. DAVISON. No.

Mr. LUCE. Now, if you and I were building a new banking system in this country, might not that embarrassing situation be one of the first we would face?

Mr. DAVISON. I do not know. I do not know that it is as acute as you suggest.

Mr. LUCE. Let me continue the line further. I understand that the measure of temporary restraint which the chairman has introduced applies to national banks. Is there any way in which we could compel your bank to refuse ownership of more than 10 per cent of its stock to any other person?

Mr. DAVISON. As long as we remain a member of the Federal reserve system, yes.

Mr. LUCE. But if you found it to your advantage to leave the system——

Mr. DAVISON. I can not conceive finding it to my advantage.

Mr. LUCE. But there are scores of banks in the country that seem to find it to their advantage to leave and to join a group, see more advantage in joining a group than staying in the Federal reserve system, perhaps.

Mr. DAVISON. I can not conceive of that situation arising with respect to our bank or to any bank of our character. As I stated—I do not know whether you were here—I think since the stock market debacle, the principal formation of chain and group banks has been influenced by fear, fear inspired by the pronouncement made that Washington favored an extension of branch banking, and groups in

localities are getting together so that they will not be easy prey to anyone who wants to buy them.

The CHAIRMAN. Will you explain just what you mean by "favored by Washington"?

Mr. DAVISON. The statement came out that the comptroller's office favored it. When I was in San Francisco I heard that the Treasury Department favored it. I do not think that has been borne out by the facts, and everybody was in a tremor that this thing was coming and it was a situation they had to meet. That is why I repeat what I said, whatever opinion your committee has and Congress has, the sooner it is determined, the better I think for the whole situation.

Mr. LUCE. We observe in every important line of activity in this country to-day a marked tendency toward consolidation. We observe that the important lines of retail trade and of wholesale trade and of important industries are all responding to what looks like an economic urge. In none of those fields that I have observed, has any element of fear entered. It has apparently been wholly due to the belief of men that more profit is to be made through the economies that result from consolidations. Why do you think that in banking this movement has some unique cause?

Mr. DAVISON. I do not say that it has any unique cause. I do say that the analogy between chain stores and other consolidations in no sense exists in banking. Banking has always been regarded as a public service and regulated, and should be regulated, because of its public character. As I stated before you came in, four-fifths of all the bank's money is depositors' money. It is not the bank's money; and I think the obligation of the bank—and I am repeating what I said before you came here—is primarily to the depositors and secondarily to the stockholders.

Mr. LUCE. I am greatly interested, of course, in your line of thought; but to my mind, to use a threadbare quotation, "it is not a theory but a condition that confronts us"; and, at the moment, it strikes me that it is our duty to face a condition and not a theory of banking; not the wisdom or prudence of it primarily, but the palpable fact that in every path of human endeavor consolidation is the order of the day, and you still do not make it clear to me why, on the sole line of profit through consolidation, banks should be considered in a class by themselves and somehow different in respect to the motives that are urging men to act.

Mr. DAVISON. I certainly have tried to make it clear that I think you should regulate branch banking and you should regulate chain and group banking so as to prevent any one central community controlling and dominating the banking interests and banking powers of smaller communities. I made that very emphatic. I do not know whether you were in the room or not.

Mr. LUCE. At this time in the session of Congress every Member of the House is greatly burdened with duties, and it is not possible to be here for every minute.

Mr. DAVISON. I do not——

Mr. LUCE. I am simply saying that in apology for not being present when you made your opening statement.

Mr. DAVISON. It is not necessary to apologize, but I simply repeat that in this memorandum I go quite fully into the reasons why banking is different from selling groceries.

Mr. LUCE. Certainly we all appreciate that fact, but that is not the question I am driving at. I am leading up in the endeavor to find a concrete basis for action. I am leading up to an inquiry as to how it is possible, viewing all the methods of evasion that are open, to prevent one man owning the stock of two banks.

Mr. DAVISON. I know of no way.

Mr. LUCE. If there is no way to prevent it how is it going to be possible to check group banking?

Mr. DAVISON. The chairman suggested one method that certainly membership in the Federal reserve bank will enable you to make effective, that no one should be permitted, or that no outside group should be permitted to own more than a certain percentage of the stock of a bank of that kind.

Mr. LUCE. Granting that a law could be passed that would prevent Jones from holding stock in a greater amount than 10 per cent in your bank or any other bank, how can you prevent Jones from owning more than 10 per cent in one bank and Mrs. Jones more than 10 per cent in another bank, or how can you escape the ordinary recourse to straw men? How can you prevent a group of men from dividing up amongst themselves, the stock of the banks? It is the possibility of evasion, at any time, of legislation that is one of the factors we must consider, and if we, so far, have been shown no way to do these things, I think we must accept the condition and face it.

We have this same problem before us in other fields. There is a committee now engaged in studying the question of joint holdings of railroads. The members of that committee look upon it as even more important than our problem. There are measures that are being urged upon us to prevent the joint holdings of chain stores. Our mail contains many appeals to stop this, but no one tells us how, assuming it should be done.

Now, after that little speech, let me ask you this question: If it should prove beyond the powers of legislative bodies to stem the tide of consolidation, and we had open to us only the power of regulating and directing, would you prefer that we direct the carrying of bank consolidation into the branch field rather than the group field?

Mr. DAVISON. I would.

Mr. LUCE. That answer meets one very important problem before us. Now, if we are going to direct it into the branch field, will you give me a reason why your bank ought not to have a branch in Jersey City?

Mr. DAVISON. Well, of course, Jersey City is not very remote from New York.

Mr. LUCE. Well, make it Newark.

Mr. DAVISON. Well, Newark has its own problems. It has credit situations and public situations that we, in New York, probably could not be fully familiar with. We would have to get a second-hand report from someone else and I think it would be altogether wrong that New York should be dictating the credit and banking policy of a locality in another city and one in which we were really foreigners and strangers.

Mr. LUCE. You feel more at home in Harlem than in Newark?

Mr. DAVISON. Naturally we would; yes, sir. But the situation is altogether different. Harlem is a place of small businesses and homes and the banking situation there would not involve big industries.

It would not involve the city or the county or a great number of local different activities like a city of the importance and character of Newark or Jersey City.

Mr. LUCE. Does the New York law permit you to open a branch in Poughkeepsie?

Mr. DAVISON. No.

Mr. LUCE. In many States, state-wide branch banking is permissible.

Mr. DAVISON. Yes, sir.

Mr. LUCE. Of course you know a great deal more about the situation there than I do, but I live in a suburb of Boston, 10 miles out. Newark is about 10 miles from New York, is it not?

Mr. DAVISON. Ten or fifteen miles, something like that.

Mr. LUCE. As a suburbanite, all my business life, I have a reasonable belief that the business men in Boston are pretty well informed about the district within a radius of 15 miles. Most of them live there.

Mr. DAVISON. Newark would resent being called a suburb of New York.

Mr. LUCE. Resent it or not, the fact is, geographically, it is in propinquity to New York.

Mr. DAVISON. I do not think economically, socially, or in any other way, it is a suburb of New York. As a matter of fact, you call up Poughkeepsie. In discussing this paper last August with one of my officers, in clarifying one point, he happened to ask me, "What would you say about a branch in Bridgeport?" I said that "That would probably involve a great many of the elements we have here, but if you go to Poughkeepsie, you will find a great many elements that do not exist here, especially with respect to farming conditions."

Mr. LUCE. If you have your office in Poughkeepsie, the observation we have had here of the workings of branches wherever they have been established, has led us to think that in all the ordinary, everyday transactions, the authority rests with the local representatives of the central banks.

However, that is all, and I thank you.

The CHAIRMAN. Mr. Davison, before turning you over to another member of the committee, in view of what you have said, I should like to ask you whether or not promoters and officers of banks engaged in organizing chains and groups, and also the extension of branch banks beyond the present limits, are not forgetting the fact that four-fifths of the banks' assets belong to the public and that the officers are, in a sense, only trustees, and rightfully subject to State and governmental supervision, and under these circumstances, whether we should not be even more careful in supervision to protect against possible exploitation by aggressive and greedy operators who are doing this for a profit. Should not the public have the assurance that these operations are being scrutinized more than heretofore?

Mr. DAVISON. I agree with that.

Mr. GOLDSBOROUGH. Mr. Davison, in discussions on the floor of the House in the last nine years and in this committee, as far as I can tell, the three major reasons given by the proponents of branch banking have been first, the number of failures that has taken place in banks in the last 9 or 10 years; second, the fact that branch banking would stop group banking and chain banking; and third, that branch banking in the national system is necessarily in order to enable

national banks to compete with State banks in States that grant the right to State banks to establish branches.

Now, my theory has always been that none of these three reasons had anything to do with the real reasons behind this movement for branch banking and, in order to try to clarify that situation, on January 9, 1930, I introduced a bill which, if enacted into law, would do three things: It would compel dissolution of group banks and chain banks and it would prevent any further extension of branch banking among State banks.

Now, assuming that that legislation, in its entirety, is constitutional and could be done, do you think you would favor it?

Mr. DAVISON. I think so.

Mr. GOLDSBOROUGH. With your permission, I should like to send you a copy of this bill, and a copy of a statement that I made in support of the constitutionality of it, and when you communicate with the committee I would appreciate it if you would comment on this bill.

Mr. DAVISON. I would be very happy to do that.

Mr. GOLDSBOROUGH. Now, these banks that have failed, especially in the Northwest, in the last nine years, in your judgment, in the case of most of those failures, have they not occurred because of credit conditions arising out of the war?

Mr. DAVISON. I think so. I made that statement.

Mr. GOLDSBOROUGH. I am very sorry I could not be here to hear it. You think, do you, that the unit system, which has built up the country, is as valid now, under normal conditions, as it ever was?

Mr. DAVISON. I certainly do.

Mr. GOLDSBOROUGH. Now, do you not think that the pressure which is coming for branch banking, is coming not from the districts which would have branches, but from interests in metropolitan areas who would like to acquire credit control over those districts? Putting it in another way, do you think that the rural districts of the country are making any demand for branch banking?

Mr. DAVISON. I do not. I think the thing started in the opportunity for speculative and commercial profits.

Mr. GOLDBSOROUGH. I think that is all.

Mr. LETTS. Mr. Davison, I have only one question. I was impressed with your statement as to the talk which you encountered at San Francisco. I understood you to say that you found the conversation out there to be with respect to the price of bank stocks and of group holdings.

Mr. DAVISON. I did.

Mr. LETTS. And that, I take it, arises from the fact there have been many consolidations, more than anything else?

Mr. DAVISON. Yes.

Mr. LETTS. And that implies speculation?

Mr. DAVISON. It does.

Mr. LETTS. In your judgment, would it be advisable, if possible, to stop speculation in bank stocks?

Mr. DAVISON. No.

Mr. LETTS. We think we should have speculation there the same as in other stocks?

Mr. DAVISON. I do not think you can help it. Anything that is ever sold, you can not escape people buying in the hope it will go up.

Of course, the history of bank stocks in New York City has been, over a long period of years, that they are very profitable.

Mr. LETTS. Assuming it were possible, do you think it would be advisable to prevent speculation in bank stocks?

Mr. DAVISON. I do not like legislation that restricts normal activities.

Mr. GOLDSBOROUGH. It is a restriction of trade, is it not?

Mr. DAVISON. Absolutely.

Mr. LETTS. I have often noted, where there is a consolidation of two banks, that when the prospect or plan for consolidation is announced, the stocks of each bank go up.

Mr. DAVISON. That is frequently bound to be the case, because one bank is getting a little more in price than it heretofore commanded in the market.

Mr. LETTS. Do you not frequently see where stocks of both banks go up?

Mr. DAVISON. Frequently, like last year, where you had a speculative furor; yes.

Mr. LETTS. But is it not a fact that when you get a better price for the stock of one bank, you decrease the assets of the other?

Mr. DAVISON. I do not think so always. There may be an actual gain to both in the consolidation.

Mr. LETTS. That is what I want to get at. How can there be profit in the mere combination of two banking houses?

Mr. DAVISON. Well, now, take the merger of the Hanover Bank and the Central Union Trust Co.: We had a commercial business in modest proportions, and a very large trust business and had a large number of correspondents and a large number of commercial customers. Instead of doing business in two offices, we do it in one. It happens to be the one we have just moved in. We can handle the whole of the commercial business and the trust business much more economically than we could handle separately the two types of business. The contact we have had in years past with the number of new customers has awakened them to the possibilities in the line of our trust service that the bank can offer that customer now that the Hanover did not handle. I think there has been a decided gain to both companies, the two services supplementing one another. It is well rounded and complete.

Mr. LETTS. Is it not a fact that in these consolidations, the personnel of the two banks are retained, perhaps going in one house, with the result that the bank is overmanned?

Mr. DAVISON. I think that will correct itself if it is true.

Mr. LETTS. Is it not often seen that the agreement for the consolidation resolves itself finally to a case of taking care of the personnel of the two institutions?

Mr. DAVISON. I have seen but two such agreements in my life and personnel has not been mentioned in either.

Mr. LETTS. You think, then, that the profit which arises out of such a situation is due to the economies which are effected?

Mr. DAVISON. Yes; and the increased contacts and business that goes with it.

Mr. LETTS. Does it give you increased contacts or simply combine the contacts of the two institutions?

Mr. DAVISON. I explained to you a moment ago that the Hanover had very little trust business. We call to the attention of all Hanover customers what we could do in taking care of securities and trust business. It has given us a contact with people that we ordinarily would not have had. That is merely one instance.

Mr. LETTS. I have seen bank stocks sell very much above their book value.

Mr. DAVISON. They always do and there is a reason why they should.

Mr. LETTS. Will you please explain that reason?

Mr. DAVISON. Take our situation here: I explained that our capital surplus, and undivided profits aggregate $105,000,000. It represents an investment of $7,000,000 by the stockholders; in other words, the book values of our stocks and the dividends paid have never measured their earnings because we have always, over a long series of years, put back part of our earnings into surplus and built it up.

Mr. LETTS. Does not that reflect itself in the book value?

Mr. DAVISON. Possibly, but it also means——

Mr. LETTS. The book value——

Mr. DAVISON. It also means you are storing up always for the future.

Mr. LETTS. But all of that is represented in book value?

Mr. DAVISON. It is not in book value. The earnings in our trust department are in no way represented by any asset on my books.

Mr. LETTS. How is book value determined?

Mr. DAVISON. The book value is the value of your securities and assets over the amount that you owe your depositors.

Mr. LETTS. Yes, and that would include the reserve, of course?

Mr. DAVISON. Includes everything that we have that we do not have to pay out, but it does not measure in any way the vast business that we have built up where I am acting as trustee or executor or taking care of other people's properties or acting as registrar in the transfer of corporate trusteeships.

Mr. LETTS. Is that spoken of as good will?

Mr. DAVISON. Yes; but it is a very tangible asset.

Mr. LETTS. How is it tangible? Is it not intangible?

Mr. DAVISON. No, it has a regular earning.

Mr. LETTS. It is not anything you can take hold of.

Mr. DAVISON. I take hold of it every year.

Mr. LETTS. How?

Mr. DAVISON. The money that comes in from the service I render.

Mr. LETTS. As soon as you have earned it, it becomes quite tangible.

Mr. DAVISON. Yes, but I am going to earn it the next year too.

Mr. LETTS. You are talking about good will?

Mr. DAVISON. No.

Mr. LETTS. Good will is what you will earn in the next year and the year following. That is not tangible.

Mr. DAVISON. Where the business is fixed, in my opinion it is.

Mr. LETTS. Can it be said that you are a fixed part of that institution?

Mr. DAVISON. I do not mean me.

Mr. LETTS. Can it be said that any part of your personnel is fixed and definite?

Mr. DAVISON. It is not a question of personnel. For example, you have named me as trustee of a trust for which I make an annual charge.

Mr. LETTS. Can it be assumed that this potential earning power is something that may not be destroyed?

Mr. DAVISON. I think so; yes.

Mr. LETTS. It can not be destroyed?

Mr. DAVISON. That is right.

Mr. LETTS. I am not speaking of possibilities in your bank, but in other banks, have we not seen men, by their own dishonesty, destroy those earnings?

Mr. DAVISON. You are not bringing in such elements——

Mr. LETTS. Why not?

Mr. DAVISON. Because I am assuming you are going to have capable management.

Mr. LETTS. How can we avoid it when we are talking about potential earnings which I prefer to call good will and which you do not accept under that name?

Mr. DAVISON. No; now just a moment. I say some of the earnings of the future are not in what we would call ordinarily good will. Good will, as I figure it, means an earning which it is assumed will go on because you have been earning in the past that sort of money.

Mr. LETTS. And because you have the confidence of the community that you serve.

Mr. DAVISON. We have the confidence of the community that we serve, yes. Now, any increase in my trust company I would say would go to your form of good will, but what is already on the books and which I retain as long as I remain honest, is not good will. So, we only differ as to part, anyway.

Mr. LETTS. I went a little further into this than I intended to, because you resisted the idea there was an intangible character——

Mr. DAVISON. And I was probably wrong.

Mr. LETTS. And you seemed to think it was something that is tangible.

Mr. DAVISON. I was trying to separate your good will into two elements. It is purely technical however.

Mr. LETTS. I would like to get that into the record—just what those two elements are. A part of it, I assume, would be the faith that the community has in the personnel.

Mr. DAVISON. Yes.

Mr. LETTS. And a part of it would rest upon the success of the institution in the past and its ability——

Mr. DAVISON. I think that is good will.

Mr. LETTS. And its ability to serve the community in its needs?

Mr. DAVISON. Yes.

Mr. LETTS. What other elements are involved?

Mr. DAVISON. In good will, I should say none.

Mr. LETTS. Then, in this potential earning power that you speak of, would there be anything else?

Mr. DAVISON. What I was trying to make clear and I do not think I got across to you, is that, for example, we have been created a joint trustee in a number of estates or by a number of individuals and those trusts run on for an indefinite period of years. They are terminable only for misconduct, say. Now, I say that the earnings

you make from that are a measurable quantity and do not constitute an element usually known as good will which depends on your continuing to have the confidence of the community and to get new business and make earnings. That is the distinction I was trying to make.

Mr. LETTS. That relates to the trust activities of the institution?

Mr. Davison. Yes.

Mr. LETTS. And not what we regard as banking, technically?

Mr. DAVISON. No.

Mr. LETTS. Well, the thing I was primarily interested in, was in knowing whether it is a good thing that we should have speculation in bank stocks.

Mr. DAVISON. I think most speculation is unfortunate, but it has some advantages in some cases, and I do not know how you can stop it without restraining unduly freedom of activity.

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

Mr. LETTS. Certainly.

The CHAIRMAN. In connection with speculation in bank stocks, do your increased facilities for trading accelerate trading in bank stocks?

Mr. DAVISON. I think the facilities have come because of the desire to trade. They are not quoted on any exchange. It is all over-the-counter market.

The CHAIRMAN. Of course the general public does not always recognize it is a slower market and subject to more fluctuations than in the listed stocks.

Mr. DAVISON. Beyond peradventure.

Mr. LETTS. Can book values be accurately determined from bank statements?

Mr. DAVISON. I should say so, generally; yes.

Mr. LETTS. How close does that come to actuality?

Mr. DAVISON. As far as the physical assets are concerned, I think, it is actual.

Mr. LETTS. Then, some of these elements that we have been talking about would induce any prudent investor in going to a higher value?

Mr. DAVISON. Absolutely.

The CHAIRMAN. Referring to your colloquy with Mr. Letts in regard to good will, that asset might be entirely depreciated, might it not, by a change of management, where an inefficient management would come in?

Mr. DAVISON. I think so; yes.

Mr. SEIBERLING. I understand from your San Francisco speech and from your statement here to-day that you believe that correspondence banking is a solution of many of our difficulties?

Mr. DAVISON. No, I say that correspondent banking offers all the advantages that are claimed for branch banking, and that the correspondent banking has been a slow growth which some thought would be terminated by the Federal reserve system, but still persists because of the service it renders.

Mr. SEIBERLING. But you think it is very much the better system?

Mr. DAVISON. Yes, sir: leaving principal dealing with principal and not employee with employee.

Mr. SEIBERLING. Approximately how many correspondents has the Central Hanover Bank & Trust Co.?

Mr. DAVISON. Approximately 3,000.

Mr. SEIBERLING. What I want to get at is what your relationship is and what you really do. You loan these correspondents funds from time to time, I take it?

Mr. DAVISON. Yes.

Mr. SEIBERLING. And do you require collateral?

Mr. DAVISON. In some cases we have collateral and in other cases we do not have collateral.

Mr. SEIBERLING. In most cases you have collateral?

Mr. DAVISON. I would not presume to say which is which.

Mr. SEIBERLING. If you loan a country bank in Ohio or in Illinois—one of your correspondents—you would have collateral?

Mr. DAVISON. Sometimes yes and sometimes no.

Mr. SEIBERLING. You charge interest on those loans?

Mr. DAVISON. Certainly.

Mr. SEIBERLING. Would you consider it good business to loan money to a correspondent out in the country if you did not have good collateral for your loan?

Mr. DAVISON. We have done it.

Mr. SEIBERLING. But there are not very many instances of that? I have been connected with the banking business, and as a rule when banks borrow money from New York they put up collateral, do they not?

Mr. DAVISON. I should say, generally, yes.

Mr. SEIBERLING. Then, that part of it is a business arrangement; in other words, your correspondent carries a balance with you and draws drafts on you and you pay interest on those daily balances?

Mr. DAVISON. Yes.

Mr. SEIBERLING. And when they get into trouble and need money, you go out and look them over——

Mr. DAVISON. It is not only when they are in truoble they need money. In the normal course of business, they frequently need money. They have collateral or receipts which they can not discount with the Federal reserve bank.

Mr. SEIBERLING. If, for any reason, they need money, they have to bring satisfactory collateral to New York and pay a satisfactory rate of interest, and then you lend them money?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, you have heard some talk about the number of banks that have failed. I think it is somewhere around 10,000, since 1920. These have been unit banks and it is the failure of these unit banks that gives rise to this investigation and to an endeavor to find some method of rectifying these great losses, which has occurred to sections of our country.

Mr. DAVISON. There have been no failures in New Jersey——

Mr. SEIBERLING. I find I should have said between five and six thousand bank failures. You are opposed to chain and group banking, of course?

Mr. DAVISON. I think it is unfortunate.

Mr. SEIBERLING. You believe in the unit bank?

Mr. DAVISON. I do.

Mr. SEIBERLING. If we had to make some change you would prefer to go to limited branch banking rather than chain and group banking?

Mr. DAVISON. I would, because of the responsibility.

Mr. SEIBERLING. How many of your correspondent banks fail during the period from 1920 to 1930?

Mr. DAVISON. I could not tell you.

Mr. SEIBERLING. Some of them have failed, have they not?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, what did your bank do as correspondent in New York, to keep these banks from failing?

Mr. DAVISON. Well, in many cases, we loaned them money in trying to help them.

Mr. SEIBERLING. But not without giving collateral, and you had a prior claim on the assets of the bank when it failed?

Mr. DAVISON. On some of the assets. It has not always been a fortunate loan.

Mr. SEIBERLING. You got your money before the depositors?

Mr. DAVISON. We did not always get it.

Mr. SEIBERLING. You loaned some of those banks?

Mr. DAVISON. Yes.

Mr. SEIBERLING. But not many where you did not get it back?

Mr. DAVISON. Not too many or I would not be in business.

Mr. SEIBERLING. But you have loaned them money?

Mr. DAVISON. Yes; that is the reason they have us as correspondents.

Mr. SEIBERLING. A bank that is in bad financial condition—you could not do anything to protect the depositors of that bank, could you?

Mr. DAVISON. Unless the loan I make him carries him over.

Mr. SEIBERLING. If you take any collateral out of the bank, that does not help the depositor at all?

Mr. DAVISON. It frequently does.

Mr. SEIBERLING. Yes, if you save the bank.

Mr. DAVISON. We have frequently saved the bank.

Mr. SEIBERLING. The fact the bank was your correspondent, in some of these cases, did not keep them from failing?

Mr. DAVISON. They did not avail themselves of our advice.

Mr. SEIBERLING. You say Newark is too far away to give advice to from New York, yet you stress the point you can give advice to correspondents all over the United States which is valuable. I do not see how you can reconcile those two statements.

Mr. DAVISON. I can see how I can.

Mr. SEIBERLING. I wish you would do it.

Mr. DAVISON. I can give advice to a banker on the trend of the money market. If he has a lot of bonds and I am of the opinion that money is going to get dear, which necessarily means bonds will necessarily go down, I might save him many dollars by telling him when to sell, and I can investigate the securities and know more about them with a large organization, than he can with a small organization and being remote.

We are helping now correspondent banks that are sending young men on and staying six or seven weeks and learning about the trust business.

Mr. SEIBERLING. You do not think it would inure to the benefit of your Newark correspondent bank?

Mr. DAVISON. Yes; but the ordinary business of this bank is living from day to day and using the funds in loaning them in that community. That is the main business of a bank, and the country has been built up on character loans made by small bankers in small communities that knew the men they were lending money to, loans that would not pass muster if studied from the purely statistical viewpoint.

Mr. SEIBERLING. Your correspondent bank usually maintain balances in your bank?

Mr. DAVISON. Yes.

Mr. SEIBERLING. What rate of interest do you pay?

Mr. DAVISON. I do not know whether it is 1¾ or 2 per cent.

Mr. SEIBERLING. You pay them a rate that enables you to realize a profit out of the loaning of it?

Mr. DAVISON. Yes.

Mr. SEIBERLING. They can purchase securities from your bank?

Mr. DAVISON. We do not sell securities.

Mr. SEIBERLING. You do not sell securities at all?

Mr. DAVISON. No, sir.

Mr. SEIBERLING. They can loan on call through your bank, can they not?

Mr. DAVISON. Yes.

Mr. SEIBERLING. And of course you get a certain percentage of that?

Mr. DAVISON. We have recently; yes.

Mr. SEIBERLING. Now the questions I have asked you bring about the relationship between the correspondent bank and your bank, do they not?

Mr. DAVISON. Well, I think the questions and answers do. I think it is a much wider service than you apprehended when you started to ask me.

Mr. SEIBERLING. These 3,000 correspondent banks, maintaining balances in your bank, greatly increase your deposits and the money you loan on the street means a profit to your institution?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, if there should be adopted trade area branch banking, and we had 35 different areas with large parent banks, many of the banks now correspondent branches of your bank would be lost to you, would they not?

Mr. DAVISON. I do not know. Some of these groups that have been formed maintain deposits with us.

Mr. SEIBERLING. If two or three big Chicago banks organized branches in trade areas and took over the unit banks in their trade areas that were correspondents of yours, you would lose them?

Mr. DAVISON. Unless the Chicago bank maintained a larger balance with us.

Mr. SEIBERLING. You would not have as many unit correspondents?

Mr. DAVISON. But I might have more money.

Mr. SEIBERLING. Now, the branch-banking plan that you were criticizing would really be detrimental to the interests of the New York banks, would it not?

Mr. DAVISON. I do not know—not necessarily.

Mr. SEIBERLING. Would not these large branch banks be independent, more or less, of New York?

Mr. DAVISON. They are quite independent now. That is the one thing I want to maintain—that they should remain independent.

Mr. SEIBERLING. Would they not be more independent of New York?

Mr. DAVISON. They would not. New York ultimately would probably dominate them.

Mr. SEIBERLING. In what way?

Mr. DAVISON. The ownership would get to New York.

Mr. SEIBERLING. You mean they would go out and buy the stock of these parent banks?

Mr. DAVISON. I think that is a natural thing.

Mr. SIEBERLING. This domination of money and credit is a valuable thing to New York?

Mr. DAVISON. No.

Mr. SEIBERLING. Why should they go out and buy the stocks?

Mr. DAVISON. To have the domination they do not now have.

Mr. SEIBERLING. If it is not valuable to them why would they buy them?

Mr. DAVISON. We are probably talking about different things. I did not say the New York banks, but I said the domination and control would probably end in New York, which is the money center.

Mr. SEIBERLING. Now, is not the main reason for your opposition to branch banking that you are sitting very prettily in New York now and you do not like to have any change made that would affect you?

Mr. DAVISON. Not at all.

Mr. SEIBERLING. You think that would have nothing to do with you at all?

Mr. DAVISON. I know it has not in my case.

Mr. SEIBERLING. I think in your San Francisco speech you said you believed that a small country bank, say in a 1-crop community, can diversify by placing part of its resources with a correspondent bank in a great city and through that bank purchase open-market commercial paper, readily marketable bonds, and acceptances, and make call loans.

Mr. DAVISON. I do not think I said it that way. I said that the correspondent bank would perform those services for the country bank.

Mr. SEIBERLING. Would not that practice result in a restriction of banking services to the local community in which the small bank is situated and throw the bulk of the business to a great metropolitan bank, by means of which the metropolitan bank makes a profit on every transaction?

Mr. DAVISON. It has not so far and would not do it near as much as if the bank in the community was a branch of a New York bank and then it would take money, if it was guided solely by the desire for profit, and place it where it would make the most money. At present the local bank decides where the money is to be placed, if it is available and not needed for the community—decide it, as a principle.

Mr. SEIBERLING. They are free to select their metropolitan bank?

Mr. DAVISON. Yes, sir; and use as much or as little as they care to in the community. If they were a branch, that matter would be decided for them by the parent bank.

Mr. SEIBERLING. Some of these local banks have several New York correspondents, do they not?

Mr. DAVISON. Yes.

Mr. SEIBERLING. Now, if a city bank in New York should endeavor to force its policy upon a correspondent bank or dictate to it what it should do, it could easily switch its account to another bank?

Mr. DAVISON. Yes; under the present system, which gives them entire freedom of action.

Mr. SEIBERLING. Now, then, if that is true and that switching of deposits or accounts to another New York bank is possible, and would be done if interference distasteful to the local bank is indulged in—can't prevent the New York bank from establishing or enforcing any given policy of banking in the country?

Mr. DAVISON. We can only offer advice. We can not compel acceptance of it.

Mr. SEIBERLING. And you have to be very careful about that?

Mr. DAVISON. I do not know. We have a rather nice relation with the bulk of them.

Mr. SEIBERLING. You have to be very careful about your advice because they may change to another correspondent bank?

Mr. DAVISON. It is built up in mutual confidence, on the same basis on which you maintain an account in your bank—because you like the people.

Mr. SEIBERLING. The banking business, above all other businesses in the country, is based on confidence?

Mr. DAVISON. Absolutely.

Mr. SEIBERLING. No bank can pay all of its depositors in one day and have to depend on the regular course of business and rely on that to conduct its business and I assume that is one of the reasons you are opposed to group and chain banking, because if one bank fails, confidence in the whole group is destroyed?

Mr. DAVISON. That is the experience.

Mr. SEIBERLING. And that is so with branch banking?

Mr. DAVISON. Well, a branch bank can not fail unless the parent bank fails.

You have the case in Georgia where 84 banks fail when one member of the chain fails.

Mr. SEIBERLING. I want to ask this question because nobody has yet satisfactorily answered the question here. Can you tell me how the call-money rate is fixed in New York?

Mr. DAVISON. As a rule by the demand for money and the supply.

Mr. SEIBERLING. And is it true the higher the stock market goes the more demand there is for money?

Mr. DAVISON. It happens that way because the higher the stock market goes, as a rule, the more speculation there is and the more people borrow on stocks, who do not own them, and naturally the greater the demand for money.

Mr. SEIBERLING. And when you have a large list of customers at your bank to borrow money on listed stocks, and the banks of New York are short and they have to have more money, the call rate goes up?

Mr. DAVISON. We do not have a list of customers at our bank borrowing on securities.

Mr. SEIBERLING. I do not mean little customers through the window, but if you have a lot of demand for money on good securities on the proper margin, you like to supply the money?

Mr. DAVISON. If we have it.

Mr. SEIBERLING. If it is not available in New York, they can put the call-money rate up and get the money?

Mr. DAVISON. Yes; it usually brings in more money.

Mr. SEIBERLING. Where did that money come from?

Mr. DAVISON. Part of it comes from out in the country. During the last year a great deal came from abroad.

Mr. SEIBERLING. What do you mean by "out in the country"?

Mr. DAVISON. In the United States.

Mr. SEIBERLING. Can you make any estimate as to the amount of outside money that was drawn into New York during the abnormal call-money period last year?

Mr. DAVISON. I can not.

Mr. SEIBERLING. Can anybody make an estimate?

Mr. BUSBY. I can give it to you if you want the percentage.

Mr. SEIBERLING. Can you figure that out for us?

Mr. DAVISON. If the statistics are available.

Mr. SEIBERLING. If you had the statistics, could you make a computation of it and give us a guess?

Mr. DAVISON. I think it could be done.

Mr. SEIBERLING. Would you mind doing it?

Mr. DAVISON. I will see what can be done.

Mr. SEIBERLING. I should like to have you put in it the record and show how much money came to New York during the high call-money rate period. Do you think the experience New York had last year in October was a good thing for the country?

Mr. DAVISON. Well, New York was the center of a disturbance which was the creation of a situation that was country wide.

Mr. SEIBERLING. I know, but——

Mr. DAVISON. And New York handled it wonderfully.

Mr. SEIBERLING. Do you think that the inflation and the stock-market collapse were good things for the country?

Mr. DAVISON. Of course not.

Mr. SEIBERLING. How bad a thing was it?

Mr. DAVISON. We have not yet found out.

Mr. SEIBERLING. It was very widespread?

Mr. DAVISON. Of course it was.

Mr. SEIBERLING. Have you any solution, not perhaps to stop it, but restrict it so it can not happen again?

Mr. DAVISON. I do not think you can stop it.

Mr. SEIBERLING. We are in a position where the Government that coins the money and is responsible for the circulating medium of this country, is without power to rectify a situation that produces disastrous results, which can not be remedied and can not be estimated?

Mr. DAVISON. Yes.

Mrs. PRATT. I think my ingenuity will be taxed to find new questions. However, I should like to get one point clear. Mr. Davison, you believe in the unit bank, not only in the large centers, but in the small towns, and I was wondering if you feel that this correspondent system—a system of having correspondents throughout the country,

large banks in the metropolitan centers having correspondents—takes care of the trouble better than any branch banking would?

Mr. DAVISON. I think it does, and I think it is truer to our traditions and prevents what you have been talking about, a money denomination or control.

Mrs. PRATT. Does it, in your mind, take the place of branch banking?

Mr. DAVISON. I think so.

Mrs. PRATT. It has been brought out here this morning that you have somewhat the relationship, with your correspondents, that a parent bank would have with its branches; that you are willing to give advice. In this instance you are in the central money market of the world and you are willing to help them out of difficulties?

Mr. DAVISON. I think we do everything that tends to benefit the community served by our correspondents, by lending money and giving advice, and so forth.

Mrs. PRATT. You think the trouble arises, largely, due to this country really being overbanked?

Mr. DAVISON. Yes. The statistics show that they had one bank for every 750 people in North Dakota and you have had more failures in North Dakota than anywhere else.

Mrs. PRATT. And it is adjusting itself and you would not be in favor of legislation to promote a new system?

Mr. DAVISON. I would not. I think the system that has grown up in our country is infinitely better than any branch system that is in existence in any foreign country, even in Canada, which is more like us than any European country could be. Their experience has been that it has not worked to the advantage of the people in the smaller communities as the unit system has worked here.

Speaking of speculation, I think you ought to stop the Florida speculation.

Mr. SEIBERLING. But the Florida speculation did not center around any organization in Florida that you know of, did it?

Mr. DAVISON. No.

Mr. SEIBERLING. But the stock speculation centers around the New York Stock Exchange.

Mr. DAVISON. Oh, there are three or four exchanges.

Mr. SEIBERLING. But the stock exchange in New York——

Mr. DAVISON. That is the largest exchange.

Mr. SEIBERLING. There is the center where this speculation is carried on.

Mr. DAVISON. I think the speculation in San Francisco is just as wide. Of course New York is the ultimate place.

Mr. SEIBERLING. That is not comparable with the Florida speculation. There was no center where it was carried on there. Individuals went down there and invested their money——

Mr. DAVISON. The brokerage offices in San Francisco were more crowded than the brokerage offices in New York, from what I have heard.

Mr. SEIBERLING. The stock exchanges are centers to encourage speculation.

Mr. DAVISON. Not to encourage it.

Mr. SEIBERLING. That is the way they live. You can not maintain an exchange unless there is speculation.

Mr. DAVISON. Oh, yes.

Mr. SEIBERLING. I do not think your illustration of the Florida speculation is comparable, myself.

Mr. DAVISON. All right.

Mrs. PRATT. I think it has been brought out here several times during the course of the hearings that there is a feeling possibly that New York is responsible for the money that comes into New York. Now, is not that really human nature? I think New York is blamed continuously that so much money is drawn there. The pressure does not come from New York to bring in the money, does it? Is not the anxiety of people outside of New York to get in responsible for its getting there?

Mr. DAVISON. I think you have expressed it very well.

The CHAIRMAN. In view of Mrs. Pratt's previous questions to you and your answers, in which you state you would not recommend any change in banking laws——

Mr. DAVISON. I mean revolutionary change, such as branch banking.

The CHAIRMAN. You realize since this development has taken place, that the unit bank is being succeeded by these other forms, and it is in a struggle—you might call it a death struggle. Many of the men who testified here, who are in favor of group and chain banking, have said that unit banking could exist along with it. Do you think that is possible?

Mr. DAVISON. I do not know. I read, coming down, what Mr. Dawes said about that, and I do not think I fully indorse his conclusions.

I happened to be speaking, last week, with a man in a rather sizable city who has a bank there, where the larger bank in that town had been purchased by a group or chain and his opinion was that his bank was growing while the other bank is not growing. His bank is growing for reasons of local pride and because it was locally managed and he thought the other was shrinking a little. That can only happen in a community that will support more than one bank. In a community that would support only one bank, I presume it would not be a unit bank.

The CHAIRMAN. Earlier this morning I referred to the scarcity of eligible paper. What effect on the amount of eligible paper for rediscount does the absorption of bankers' acceptances and prime bills by banks acting for foreign correspondents or foreign countries have on the eligible paper available for release of credit by the Federal reserve banks? Is that one of the reasons for the shortage?

Mr. DAVISON. I do not think so.

The CHAIRMAN. Would it not be logical, if eligible paper is absorbed by those banks to cover investments here, to be one of the reasons?

Mr. DAVISON. It might be.

(Discussion off the record.)

The CHAIRMAN. I think this completes the hearing before the committee, and the committee appreciates very greatly your appearance here, Mr. Davison.

(Whereupon, at 12.40 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. Wednesday, June 4, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, JUNE 4 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. In pursuance with an invitation extended by the committee, we have here this morning Mr. Albert H. Wiggin, head of the Chase National Bank in New York. Mr. Wiggin, will you please give the reporter your title, and so forth?

STATEMENT OF ALBERT H. WIGGIN, CHAIRMAN OF THE GOVERNING BOARD OF THE CHASE NATIONAL BANK OF NEW YORK

Mr. Wiggin. My name is Albert H. Wiggin, chairman of the governing board of the Chase National Bank of New York.

The Chairman. Mr. Wiggin, as you know, the committee are engaged in the study of branch, chain, and group banking, under the authority of House Resolution 141. We are attempting to complete that study, under the authority of the resolution, at this session of Congress. Realizing the important position that you occupy as the head of one of the largest banks and banking groups in the country, if not in the world, the committee will value very highly any statement that you can make which may enlighten us or be helpful in this study.

We realize a great change in our whole banking situation in the country is under way, and the committee are desirous of getting all the light we can in case Federal legislation should be necessary. Therefore, we shall be very glad to hear any statement you may care to make.

Mr. Wiggin. You should understand, Mr. Chairman, any statement I may make, or any questions I answer, are my own opinion. I am not here under instructions from our board or from the stockholders, or after any official consideration of the subject.

I have not prepared a statement for this occasion, my preference being to answer any questions that are asked, but I might, for the benefit of the record, to bring the subject up, read a statement I made at the time of the merger with the Mechanics and Metals National Bank.

The Chairman. Without objection, that will be placed in the record—or do you want to read it?

Mr. Wiggin. It will be satisfactory simply to place it in the record.

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

(The statement referred to is as follows:)

This merger, together with similar steps on the part of other institutions in the last two or three years, has been made the occasion of comments to the effect that mergers are the order of the day and that the line of logical development is toward fewer and much bigger banks. I am not prepared to subscribe to this doctrine without qualification, and I would not have our merger with the Mechanics and Metals National Bank judged on that basis alone. It is significant that while bank mergers are taking place, new banks of moderate size are also coming into existence and doing well. A merger may bring together organizations which can not work harmoniously and may combine interests which are not compatible. Each case must be judged on its own merits. Haphazard mergers merely for the sake of large figures do not assure good banking. In the case of the merger of the Chase National Bank and the Mechanics and Metals National Bank a great deal of careful thought and planning preceded the decision. The responsible officials of both institutions knew one another well before the merger, and were sure that they could cooperate in a friendly and efficient way. The merger has been accomplished with entire good will and with a minimum of friction and disturbance.

It may be observed that the Chase National Bank reached the position of the second largest national bank in the country in volume of net deposits without any mergers at all. Attaining great size through growth alone, it was able to develop a body of traditions, ideals, and practices which give it a distinctive character. The mergers which have since taken place have made it possible for us to give larger lines of credit to great business organizations, have made possible the more economical handling of many functions, and have broadened the range of our activities, but they have not destroyed the distinctive character of the Chase National Bank.

The CHAIRMAN. Have you any further statement?

Mr. WIGGIN. No; I would rather answer questions.

The CHAIRMAN. The other witnesses who have appeared have given us information pertaining to the institutions with which they are connected. If you have not with you this morning that information, I am going to suggest that you furnish for the record a statement of the Chase National Bank of New York.

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

The CHAIRMAN. And affiliated companies.

Mr. WIGGIN. You mean a list of the affiliated companies or a statement of all of the affiliated companies?

The CHAIRMAN. We would like to have a statement of each company.

Mr. WIGGIN. We can do that very readily, and I will start it with the bank statement that was published this morning which is right up to date, and then give you the other statements.

The CHAIRMAN. I have a statement which appears in the New York Times under date of June 2, which gives a list of your branches, and so forth. I presume it is the same——

Mr. WIGGIN. This is a statement of the bank.

The CHAIRMAN. The two probably cover the picture and, without objection, they will both be placed in the record at this point, to be followed by other detailed data as regards your various affiliated companies.

Mr. WIGGIN. I shall be glad to furnish it.

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

[New York Herald Tribune, Wednesday, June 4, 1930]

On June 2, 1930, The Chase National Bank, The Equitable Trust Co. and Interstate Trust Co. were formally merged as The Chase National Bank of the city of New York.

Statement of condition at close of business, June 2, 1930 [1]

RESOURCES

Cash and due from banks		$592, 458, 308. 83
Loans and discounts		1, 435, 359, 900. 64
U. S. Government securities		228, 710, 596. 93
Other securities		106, 580, 632. 51
Real estate		34, 771, 643. 58
Redemption fund—U. S. Treasurer		386, 825. 00
Customers' acceptance liability	$172, 184, 069. 87	
Less amount in portfolio	20, 018, 289. 14	
		152, 165, 780. 73
Other assets		1, 001, 374. 98
Total		2, 551, 435, 063. 20

LIABILITIES

Capital		148, 000, 000. 00
Surplus		148, 000, 000. 00
Undivided profits		60, 723, 478. 27
Reserved for taxes, interest, etc		9, 744, 827. 59
Dividend payable July 1, 1930		5, 550, 000. 00
Deposits		1, 916, 236, 313. 91
Circulating notes		7, 736, 500. 00
Acceptances	$176, 775, 899. 86	
Less amount in portfolio	20, 018, 289. 14	
		156, 757, 610. 72
Liability as indorser or maker on acceptances and foreign bills		94, 501, 162. 90
Other liabilities		4, 185, 169. 81
Total		2, 551, 435, 063. 20

Each shareholder of The Chase National Bank is also the holder of a like number of shares of Chase Securities Corporation.

Capital funds of Chase Securities Corporation, which are in excess of $125,000,000, are not included in the bank statement.

Responsibility for policies and service is vested in the following board of directors:

Albert H. Wiggin, John McHugh, Charles S. McCain, Robert L. Clarkson, Winthrop W. Aldrich, Frank Altschul, Vincent Astor, Gordon Auchincloss, Earl D. Babst, Howard Bayne, Amos L. Beaty, Hugh Blair-Smith, Henry S. Bowers, E. N. Brown, Francis H. Brownell, Kenneth P. Budd, H. D. Campbell, Henry W. Cannon, Newcomb Carlton, Walter S. Carpenter, Jr., Malcolm G. Chace, Harold Benjamin Clark, J. S. Coffin, Howard E. Cole, Edward J. Cornish, Harvey C. Couch, Frederic R. Coudert, Clarkson Cowl, Paul D. Cravath, Bertram Cutler, Gerhard M. Dahl, Thomas M. Debevoise, Richard Delafield, Clarence Dillon, Franklin D'Olier, Frederick H. Ecker, Halstead G. Freeman, T. M. Girdler, David M. Goodrich, Edward H. R. Green, A. H. Griswold, William E. S. Griswold, Henry O. Havemeyer, Charles Hayden, James N. Hill, Arthur G. Hoffman, Ralph C. Holmes, George H. Howard, Daniel C. Jackling, Otto H. Kahn, Lewis Cass Ledyard, Jr., James T. Lee, L. F. Loree, H. Edmund Machold, John C. Martin, Thomas N. McCarter, Charles G. Meyer, Albert G. Milbank, Jeremiah Milbank, John G. Milburn, George M. Moffett, George Welwood Murray, Joseph D. Oliver, Henry Ollesheimer, Eugenius H. Outerbridge, Thomas I. Parkinson, Frank L. Polk, Robert C. Pruyn, Samuel F. Pryor, Lyman Rhoades, Andrew W. Robertson, Ferdinand W. Roebling, jr., Reeve Schley, Carl J. Schmidlapp, Charles M. Schwab, Alfred P. Sloan, jr., Robert C. Stanley, John C. Traphagen, Cornelius Vanderbilt, Thomas F. Vietor, George P. Whaley, F. Edson White, and Henry Rogers Winthrop.

Head office, Pine Street, corner of Nassau. Equitable Trust Branch, 11 Broad Street. Forty-five other branches in Greater New York.

Foreign offices: London, England (2); Havana, Cuba; Cristobal, Canal Zone; and Panama City, Republic of Panama.

Berlin Representative: Unter den Linden 57. Rome Representative: Piazza Mignanelli, 3.

[1] This statement does not include the statements of any of the affiliated organizations mentioned below.

Affiliated organizations: Chase Securities Corporation, American Express Co., Equitable Eastern Banking Corporation, American Express Bank & Trust Co., the Chase Safe Deposit Co., and the Chase Bank (Paris and Mexico City).

[The New York Times, Monday, June 2, 1930]

To-day the Chase National Bank, the Equitable Trust Co., and the Interstate Trust Co. are formally merged as the Chase National Bank of the City of New York.

The consolidated institution is controlled by a directorate of recognized leaders in American finance, industry, law, transportation, insurance, and public utilities.

Outstanding executives, chosen for their wide experience and ability in banking, investment, and trust service are available for personal consultation to clients of the consolidated bank.

Head office, Pine Street, corner of Nassau.

The merger gives the Chase National Bank 46 branch offices, in prominent residential and business districts of Greater New York.

Equitable Trust Branch, 11 Broad Street (formerly head office, The Equitable Trust Co.).

Produce Exchange Branch, 25 Broadway.
Mercantile Branch, 115 Broadway.
Maiden Lane Branch, 75 Maiden Lane.
National Park Branch, 214 Broadway.
Worth Street Branch, Broadway at Worth Street.
Importers and Traders Branch, Worth Street, corner of Church.
Franklin Branch, Franklin Street, corner of Hudson.
Prince Street Branch, Broadway at Prince Street.
Stuyvesant Square Branch, Second Avenue at Fourteenth Street.
Metropolitan Branch, Fourth Avenue at Twenty-third Street.
Garfield Branch, Fifth Avenue at Twenty-third Street.
West Twenty-third Street Branch, 338 West Twenty-third Street.
Fifth Avenue Branch, 204 Fifth Avenue.
Madison Square Branch, Madison Avenue at Twenty-sixth Street.
Twenty-eighth Street Branch, Madison Avenue at Twenty-eighth Street.
Pennsylvania Branch, Seventh Avenue at Thirty-second Street.
Mutual Bank Branch, 49 West Thirty-third Street.
New Netherland Branch, 40 West Thirty-fourth Street.
Seventh Avenue Branch, Seventh Avenue at Thirty-sixth Street.
Forty-first Street Branch, Madison Avenue at Forty-first Street.
Times Square Branch, Seventh Avenue at Forty-first Street.
Grand Central Branch, Lexington Avenue at Forty-third Street.
Forty-fifth Street Branch, Madison Avenue at Forty-fifth Street.
Forty-sixth Street Branch, Park Avenue at Forty-sixth Street.
Forty-eighth Street Branch, 18 East Forty-eighth Street.
Fifty-seventh Street Branch, 143 West Fifty-seventh Street.
Fifty-ninth Street Branch, Lexington Avenue at Fifty-ninth Street.
Park Avenue Branch, Park Avenue at Sixtieth Street.
Seventy-second Street Branch, Broadway at Seventy-second Street.
Seventy-fourth Street Branch, Broadway at Seventy-fourth Street.
Seventy-ninth Street Branch, Madison Avenue at Seventy-ninth Street.
Eighty-sixth Street Branch, Broadway at Eighty-sixth Street.
Columbus Avenue Branch, Columbus Avenue at Ninety-third Street.
Ninety-sixth Street Branch, Madison Avenue at Ninety-sixth Street.
Harlem Market Branch, 2011 First Avenue.
One Hundred Tenth Street Branch, Broadway at One hundred and tenth Street
Harlem Branch, Third Avenue at One hundred and sixteenth Street.
Manhattanville Branch, 422 West One hundred and twenty-fifth Street.
One Hundred Forty-ninth Street Branch, 368 East One hundred and forty-ninth Street.
One Hundred Seventieth Street Branch, 96 East One hundred and seventieth Street.
Washington Heights Branch, Wadsworth Avenue and One hundred and eighty-first Street.
Fordham Branch, 301 East Fordham Road.
Hamilton Trust Branch, 191 Montague Street, Brooklyn.
Avenue "M" Branch, Avenue "M" at East seventeenth Street, Brooklyn.
Queens Village Branch, Jamaica Avenue at Two hundred and seventeenth Street, Queens Village.

Foreign offices: London, England (2); Habana, Cuba; Cristobal, Canal Zone; and Panama City, Republic of Panama.

Berlin representative: Unter den Linden 57. Rome Representative: Piazza Mignanelli, 3.

Affiliated organizations: Chase Securities Corporation, American Express Co., Equitable Eastern Banking Corporation, American Express Bank & Trust Co., The Chase Safe Deposit Co., and the Chase Bank (Paris and Mexico City).

The CHAIRMAN. We should like also to have a list of your stockholders.

Mr. WIGGIN. The list of stockholders would be rather long. There are some 70,000 stockholders.

The CHAIRMAN. Could you do as was done in the Pujo Committee, furnish is a list of the stockholders owning over 500 shares of stock?

Mr. WIGGIN. We will furnish whatever limit you would like to put on. You understand that list of stockholders does not necessarily give the correct picture. They are frequently in broker's names or in the names of clerks; so, it does not necessarily give you what you are driving at, but we can give you whatever you want.

The CHAIRMAN. The question of double liability has been before this committee on various occasions. Where bank shares are held in the name of a dummy or in the name of brokers, or what you might call street names, the double liability goes against the name to whom the certificate is issued?

Mr. WIGGIN. The man in whose name it is, is liable to collect from the real owner. It usually carries through.

The CHAIRMAN. There is no getting away from that double liability when the stock is held in that manner? In some instances, it has been called to the attention of the committee that there was an increasing amount of stock being held by dummies who were not responsible and, by that method, they are getting away from the enforcement of the double liability.

Mr. WIGGIN. That might be true. The fact that the number of stockholders increases so rapidly, from year to year, does bring in a great many names that are not the actual owners and, of course, it would be very much more difficult to collect from the actual owners.

The CHAIRMAN. It is rather difficult to follow the ownership of the bank, particularly during these days of active markets on bank stocks?

Mr. WIGGIN. Correct.

The CHAIRMAN. And it raises practically a new issue as regards ownership of banks?

Mr. WIGGIN. Of course, the trading is apt to be in good banks and there is not very much danger of that liability.

The CHAIRMAN. I suppose that is so. We have pending here before the committee, Mr. Wiggin, a bill in connection with the regulation or supervision, more particularly, of affiliated companies by the supervising authority, the Comptroller of the Currency. You recognize, do you not, the necessity for such an examination to be made of affiliated companies with a national bank, when the comptroller makes his examination?

Mr. WIGGIN. Each unit would be under supervision. I assume that the purpose in auditing the holding company would be to prevent abuse in the use or the substitution of units.

The CHAIRMAN. To avoid a mixing of the assets; in other words, unless the supervisory force has access——

Mr. WIGGIN. I do not know that it is necessary, but it certainly would not do any harm. Each unit is going to have its own bank

officers. They take an oath of office and are bound to run that bank in an honest way, but I can see no harm in auditing the holding companies.

The CHAIRMAN. Take, for instance, your affiliated or holding companies, they are organized under the State of New York?

Mr. WIGGIN. We have no holding companies in the sense that they are bank holding companies. We have nothing of that kind. We do have the Chase Securities Co., but it was not organized to buy bank stocks, or anything of that kind.

The CHAIRMAN. The Chase Securities Co. originates and sells securities?

Mr. WIGGIN. Yes.

The CHAIRMAN. What other affiliated companies have you in your group?

Mr. WIGGIN. We own the American Express Co.; that is, we own 98 per cent of it.

The CHAIRMAN. What does the American Express Co. do now?

Mr. WIGGIN. The American Express Co. is a travel bureau, selling steamship tickets and transportation; it sells travelers' checks and, in Europe, a subsidiary company of the American Express, called the American Express (Inc.), does a banking business in various cities.

The CHAIRMAN. And that is owned entirely by the American Express Co. here?

Mr. WIGGIN. Owned entirely by the American Express Co. here; yes, sir.

The CHAIRMAN. Do you carry on a banking businesss through the offices of the American Express Co.?

Mr. WIGGIN. Not in this country. The American Express Co. is the principal owner of a bank called the American Express Bank & Trust Co., which has an office in their building in New York and does a purely banking business in that one office.

The CHAIRMAN. It has a great many offices throughout the world?

Mr. WIGGIN. Yes; I can get the exact number.

The CHAIRMAN. Will you please put that in the record, together with its offices in the United States—both the bank and the express company?

Mr. WIGGIN. The bank has but one office. If you will give me a minute, I will give you that information.

The American Express Co. has 34 offices in the United States and 66 in the rest of the world.

The CHAIRMAN. Does the Chase National Bank, or any of its affiliates, other than the American Express Co., have foreign branches?

Mr. WIGGIN. The Chase National Bank has to-day 4 foreign branches; it has 1 in Havana; it has 1 in Panama, and 1 in Crisotal, and, since Saturday last, has 1 in London.

The Chase Securities Co., for its distribution of securities, has—without refreshing my memory I can not give the exact number—some 15 or 20 branch offices throughout this country; also 1 in London.

The CHAIRMAN. The London office is the only one abroad which the Chase Securities Co. has?

Mr. WIGGIN. We have our sign on the door in the Paris bank as well, I think you can count the Paris office also.

The recent merger, which took in the Equitable Trust, made necessary the formation of a new bank under the Edge Act, known

as the Chase Bank, which is organized to take over the Paris branches of the Equitable Trust Co. It seemed wiser to do it through the subsidiary, under the Edge Act, rather than have a branch of the main office. A tax question was one of the matters involved.

Mexico City has a branch of this Chase Bank, which is a subsidiary of the corporation organized under the Edge Act. There are other affiliations, but owing to this recent merger and the rapidity with which things are happening it is a little difficult to keep all of those things straight in my mind. However, the Equitable Corporation, a subsidiary company of the Equitable Trust, is now merged with the Chase Securities Corporation. The Equitable Trust Co. had an affiliated company called the Equitable Eastern Banking Corporation, with offices in Shanghai and other cities. That remains intact.

There is in process of organization a new Equitable Trust Co. The formation of the Equitable Trust Co. has the advantage of protecting that name and, so that it can be possible, will do a certain amount of trust and banking business. That is in process of organization.

I think that is the complete picture of the affiliations.

The CHAIRMAN. If it is not, if you will supply the committee with the further information, we will be very much pleased.

Mr. WIGGIN. There is one more affiliation. That is the Chase Safe Deposit Co. That has nothing to do with the banking business, however.

(The statements of the affiliates referred to are printed in full, as follows:)

STATEMENT OF THE CONDITION OF CHASE SECURITIES CORPORATION AT CLOSE OF BUSINESS DECEMBER 31, 1929

RESOURCES

Cash		$7, 136, 976. 33
Bills and accounts receivable		28, 754, 717. 93
Securities		75, 603, 974. 05
Total		111, 495, 668. 31

LIABILITIES

Bills and accounts payable		5, 272, 380. 01
Suspense		49, 686. 02
Reserves:		
General	$1, 000, 000. 00	
Tax and other reserves	2, 644, 482. 74	
Dividend payable Jan. 2, 1930	1, 312, 500. 00	
		4, 956, 982. 74
Capital stock (5,250,000 shares, no par value)	73, 000, 000. 00	
Surplus and profits	28, 216, 619. 54	
		101, 216, 619. 54
Total		111, 495, 668. 31

OFFICERS

Trust department: Reeve Schley, George E. Warren, J. Sperry Kane, Ralph L. Cerero, vice presidents; George A. Kinney, second vice president; Howard F. Walsh, corporate trust officer; George I. Pierce, personal trust officer; Edward S. Dix, George J. Runge, Oliver B. Hill, Vincent L. Banker, Frederick Pintard, Paul H. Selchow, Norman W. Andrews, John I. Brooks, jr., Frederick T. Burrows, Edward C. Kerr, Lester A. Kraushaar, Caspar A. Blass, Horace Tomlinson, William F. Wilson, Robert M. Dunwoody, Esmond B. Gardner, assistant trust officers.

Foreign department: Joseph C. Rovensky, Lynde Selden, Arthur W. McCain vice presidents; Manfred Barber, Ernest H. Kuhlman, John B. Heinrichs, second vice presidents; John G. Peterson, William E. Hughes, James A. MacIlvaine, Otto T. Kreuser, assistant cashiers; Allan V. Daily, manager; Walter E. Sullivan, Edmund M. Ellerich, Nicholas J. Murphy, Frank N. Powelson, James G. Baker, Edmund G. Powell, Oscar Armburster, Louis Dezzi, assistant managers.

Credit department: David MacKenzie, assistant cashier and manager; Malcolm Corduan, assistant cashier; Arthur B. Murray, Richard Griffiths, Andrew S. Ross, Edward Bartsch, Ernest C. Schwarz, assistant managers.

Investment service department: John E. Bastedo, manager; Wilton A. Pierce, assistant manager.

Comptroller's department: Arthur M. Aiken, second vice president and comptroller; Arthur K. Schulz, William W. Besson, assistant comptrollers.

Condensed statement of condition of American Bank Express & Trust Co., New York, N. Y., at close of business June 6, 1930

RESOURCES

Cash and due from banks		$3, 072, 814. 13
Loans and discounts		20, 608, 432. 54
United States Government securities		1, 018, 143. 10
Other bonds and investments		4, 487, 913. 28
Customers' liability on acceptances		14, 130. 25
Accrued interest receivable		67, 857. 71
Total		29, 269, 291. 01

LIABILITIES

Capital	$10, 000, 000. 00	
Surplus	5, 000, 000. 00	
Undivided profits	99, 942. 03	
		15, 099, 942. 03
Reserves: Interest, taxes, etc		782, 857. 75
Discount collected but not earned		992. 61
Liabilities as acceptor, indorser, or maker on acceptances and foreign bills		548, 679. 01
Deposits		12, 836, 819. 61
Total		29, 269, 291. 01

AMERICAN EXPRESS CO. AND THE AMERICAN EXPRESS CO. (INC.)

RESOURCES AND LIABILITIES APRIL 30, 1930

[Issued by vice president and comptroller, New York, June 11, 1930]

American Express Co. condensed statement of resources and liabilities April 30, 1930

RESOURCES

Cash on hand and in banks	$3, 661, 718. 49
Demand and time loans secured	13, 611, 346. 49
Due from banks and bankers	8, 716, 210. 14
Branch offices working funds and items in transit	1, 354, 511. 56
United States Government securities	36, 474. 60
Other public securities	11, 254, 003. 27
Other securities and investments	26, 423, 130. 35
Real property and equipment	6, 068, 773. 02
Customers' liability under acceptances and letters of credit	869, 587. 24
Bank guaranties on travelers' cheques and circular letters of credit	5, 252, 105. 25
Accrued interest and accounts receivable	702, 036. 39
Deferred debit items	163, 991. 04
Total resources	78, 113, 887. 84

LIABILITIES

Capital				$18,000,000.00
Surplus December 31, 1929			$5,898,745.36	
Net earnings from current operations		$432,463.46		
Less:				
Dividends accrued	$90,000.00			
Dividends declared	270,000.00			
		360,000.00		
			72,463.46	
			5,971,208.82	
Adjustment to profit and loss of prior periods			1,921.09	
				5,973,129.91
General reserves				4,643,250.22
Reserved for depreciation, taxes, losses, and other items				3,290,511.04
Dividends payable				
Due to banks and bankers				9,636,379.60
Travelers' cheques and travelers' letters of credit				30,928,680.17
Money orders, drafts, and other financial paper issued and not yet presented for payment				4,270,401.68
Acceptances and letters of credit				871,087.24
Accrued and other current liabilities				272,372.90
Deferred credit items				228,075.08
Total liabilities				78,113,887.84

The American Express Co. (Inc.) condensed statement of resources and liabilities (as per New York books and not including branches), April 30, 1930

RESOURCES

Cash	$5,117,922.32
Securities and investments	1,923,715.34
Real property and equipment	770,574.14
Operating capital advanced to foreign offices	905,293.58
Accounts receivable	65,550.85
Expenses paid in advance	291.66
Total resources	8,783,347.89

LIABILITIES

Capital stock		6,000,000.00
Surplus Dec. 31, 1929	$1,572,454.47	
Net earnings from current operations	11,661.44	
	1,584,115.91	
Adjustments to profit and loss of prior periods	1,374.78	
		1,585,490.69
General reserves		832,551.07
Reserved for depreciation, taxes, losses, and other items		329,656.40
Accrued and other current liabilities		35,270.73
Deferred credit items		379.00
Total liabilities		8,783,347.89

American Express Co. directory of division managers of outside territory, United States (May 1, 1930):

H. C. Elwes, vice president, 65 Broadway, New York.

Eastern division: A. C. Heffernan, manager, H. R. Kibbe, assistant manager, 65 Broadway, New York, N. Y.

Central division: E. M. English, manager, J. T. Walsh, assistant manager, 58 East Washington Street, Chicago, Ill.

Southern division: G. F. Fetscher, manager, 606 the Standard Building, Atlanta, Ga.

Southwestern division: C. S. Taylor, manager, W. A. Schaperkotter, assistant manager, Ninth and Locust Streets, St. Louis, Mo.

Pacific division: G. B. Viets, manager, O. D. Colby, assistant manager, Market Street at Second, San Francisco, Calif.

American Express Co., directory of independent office organization May 1, 1930 (United States and Canada):

H. C. Elwes, vice president; T. L. Happ, assistant to vice president, 65 Broadway, New York.

G. M. Shirey, R. M., 91 Luckie Street, NW., Atlanta, Ga.

R. D. Angell, R. M., T. E. Greenwood, D. P. A., P. Barbet, F. I. T., 118 W. Fayette Street, Baltimore, Md.

G. R. Bart, R. M., 4 North Nineteenth Street, Birmingham, Ala.

L. E. Stearns, R. M., A. A. Prickett, A. R. M. and F. I. T., P. G. Hedrick, A. R. M. and F. I. T., Statler Hotel Building, Park Square, Boston, Mass.

E. J. Maloney, R. M., E. S. Radecki, D. P. A., E. Kienast, F. I. T., Main and Erie Streets, Buffalo, N. Y.

E. L. Walsh, R. M., E. T. Madden, A. R. M., J. H. Doesburg, A. R. M., A. H. Ward, F. I. T., 70 East Randolph Street, Chicago, Ill.

J. E. Weaver, R. M., W. D. Distler, D. P. A., Fourth and Elm Streets, Cincinnati, Ohio.

J. G. Kehoe, R. M., M. H. Nealon, D. P. A., J. Roy Galvin, F. I. T., 1003 Huron Road, Cleveland, Ohio.

C. Dorris, R. M., S. E. Whipkey, D. P. A., X. F. Drexler, F. I. T., 1306 Commerce Street, Dallas, Tex.

E. H. Bailey, R. M., S. A. Dunsay, D. P. A., 1643 Stout Street, Denver, Colo.

W. F. Whitbeck, R. M., O. A. Johnson, A. R. M., A. A. Barthel, D. P. A., F. H. Vonesh, F. I. T., 23 Fort Street West, Detroit, Mich.

R. S. Cauvin, manager, John Falkenburg, A. M., Agramonte (Zulueta) 15, Havana, Cuba.

R. S. Ferguson, R. M., 257 South Meridian Street, Indianapolis, Ind.

H. C. Templeton, R. M., A. J. Baldwin, D. P. A., 933 Walnut Street, Kansas City, Mo.

L. H. Kellan, R. M., B. W. Marsh, D. P. A., A. Hunnex, F. I. T., 609 West Seventh Street, Los Angeles, Calif.

J. F. Brooks, R. M., 206 East Flagler Street, Miami, Fla.

F. B. Tendick, R. M., F. W. Sieger, D. P. A., C. E. Fletcher, F. I. T., 457–459 East Water Street, Milwaukee, Wis.

J. E. Beard, R. M., V. M. Bloom, D. P. A., G. C. Sedard, F. I. T., 117 South Seventh Street, Minneapolis, Minn.

J. J. Bulger, manager, J. W. Hunt, D. P. A., 1233 (521 Phillips Square, Montreal, Canada).

R. J. Cooper, R. M., E. A. MacCarthy, D. P. A., 876 Broad Street, Newark, N. J.

N. H. Pope, R. M., W. H. Worden, D. P. A., 707 Gravier Street, New Orleans, La.

George Simpkins, R. M., William Bennett, D. P. A., 65 Broadway, New York, N. Y.

E. Williams, R. M., G. C. Finehout, A. R. M., H. C. Hosier, D. P. A., 150 West Forty-first Street, New York, N. Y.

O. Schumacher, R. M., S. A. Knight, F. I. T., 551 Fifth Avenue, New York, N. Y.

W. G. Smith, R. M., A. B. Montgomery, A. R. M., J. S. Shaw, F. I. T., 1708 Chestnut Street, Philadelphia, Pa.

T. J. Worthman, R. M., J. E. Gilbert, D. P. A., C. E. Dekock, F. I. T., 512 Grant Street, Pittsburgh, Pa.

R. L. Dunham, R. M., C. Beerli, D. P. A., 65 Sixth Street, Portland, Oreg.

S. L. Woods, R. M., W. R. Hein, D. P. A., B. J. Haas, F. I. T., Ninth and Locust Streets, St. Louis, Mo.

P. C. Child, R. M., 26 West Second Street, South, Salt Lake City, Utah.

F. P. Rhoads, R. M., J. B. Hubbard, D. P. A., Market Street at Second, San Francisco, Calif.

C. Harmon, R. M., J. H. Cassen, F. I. T., 1209 Fourth Avenue, Seattle, Wash.

D. P. Aub, R. M., Willard Hotel Building, 1414 F. Street, NW., Washington, D. C.

TRAVEL BUREAU

Mr. A. H. Young-O'Brien, First National Bank, Baltimore, Md.
Miss L. L. Redding, Abraham Straus (Inc.), Brooklyn, N. Y.
Mr. William K. Wunsch, Hyde Park National Bank, Chicago, Ill.
Mr. W. C. Gevers, Marshall Field & Co., Chicago, Ill.
Mr. M. V. Callaghan, The Central Trust Co., Cincinnati, Ohio.
Miss P. R. Manger, The May Co., Cleveland, Ohio.
Miss E. M. Cowley, Crowley Milner Co., Detroit, Mich.
Mr. J. W. Fuchs, The Michigan Trust travel office, Grand Rapids, Mich.
Mr. H. Kingsley, National Bank of Commerce, Houston, Tex.
Mr. R. B. Preble, Florida National Bank, Jacksonville, Fla.
Mr. G. M. Meagher, Trust Co., of New Jersey, Jersey City, N. J.
Mr. M. D. Reid, Bank of America of California, Los Angeles, Calif.
Miss F. L. Richey, Bullock's, Los Angeles, Calif.
Miss Christine Hare, Hotel Clark, Los Angeles, Calif.
Mr. W. R. Gray, Hotel Alexandria, Los Angeles, Calif.
Mr. W. F. Box, Bank of Bay Biscayne, Miami, Fla.
Miss B. E. Strache, Gimbels, Milwaukee, Wis.
Mr. Fred Danaher, Windsor Hotel, Montreal, Canada.
Mr. L. Janssens, Guardian Trust Co., Montreal, Canada.
Miss R. M. Bain, James McCreery & Co., New York, N. Y.
Mr. C. G. Starcke, Chase National Bank, Pine & Nassau Streets, New York, N. Y.
Mr. P. Boentgen, Chase National Bank, Broadway and Eighty-sixth Street, New York N. Y.
Miss D. Shaw, Chase National Bank, Park Avenue at Sixtieth Street, New York N. Y.
Mr. L. Zeh, Chase National Bank, Twenty-third Street and Fifth Avenue, New York, N. Y.
Mr. S. M. Loebl, Manufacturers Trust Co., Eighth Avenue and Forty-third Street, New York, N. Y.
Miss H. R. Peyser, F. B. Schlesinger & Sons, Oakland, Calif.
Mr. W. D. Schuster, Central National Bank, Oakland, Calif.
Mr. E. V. Fricker, Wanamaker's, Philadelphia, Pa.
Mrs. G. O'Brien, Gimbels, Pittsburgh, Pa.
Mr. F. R. Burn, The Bank of Pittsburgh, N. A., Pittsburgh, Pa.
Miss L. A. Kain, Multnomah Hotel, Portland, Oreg.
Miss M. Wright, Olds, Wortman & King, Portland, Oreg.
Mr. W. M. Power, First National Bank in St. Louis, St. Louis, Mo.
Mr. W. R. Simon, The First National Bank of St. Petersburg, St. Petersburg, Fla.
Mr. A. E. Francke, Claifornia National Bank, Sacramento, Calif.
Miss V. Rose, Weinstock, Lubin & Co., Sacramento, Calif.
Mrs. G. A. Cooper, New House Hotel, Salt Lake City, Utah.
Mr. P. G. Nazzari, San Diego Trust & Savings Bank, San Diego, Calif.
Mr. S. T. Lasson, Anglo-California Trust Co., San Francisco, Calif.
Miss C. N. Brown, City of Paris Dry Goods Co., San Francisco, Calif.
Miss H. Garrett, Clift Hotel, San Francisco, Calif.
L. McKeown, Palace Hotel, San Francisco, Calif.

Equitable Eastern Banking Corporation—Consolidated Statement as of May 31, 1930

ASSETS

Cash on hand and in banks	$1, 945, 526. 03
Bullion on hand and in transit	3, 156, 478. 91
Due from foreign banks	1, 645, 757. 20
Loans and discounts	6, 818, 071. 51
Customers' liability on acceptances	10, 545, 284. 97
Acceptances in portfolio	471, 396. 09
New York State bond	1, 000. 00
Other assets	38, 904. 46
Total	24, 622, 419. 17

LIABILITIES

Capital	$2, 000, 000. 00
Surplus	2, 000, 000. 00
Undivided profits	659, 029. 89
Deposits	6, 242, 965. 95
Acceptances outstanding	10, 545, 284. 97
Acceptances anticipated	347, 611. 28
Due to foreign banks	437, 858. 30
Items in transit with foreign branches	947, 982. 00
Due to The Equitable Trust Co., of New York	216, 062. 01
Unearned discount	13, 995. 53
Reserve for taxes, etc	494, 897. 10
Other liabilities	716, 732. 14
Total	24, 622, 419. 17

For information only:		
In undivided, May 31, 1930	$659, 029. 89	
Profit in future exchange, not on books, New York office, May 31, 1930	113, 136. 02	
Profit in futue exchange, foreign offices in reserve on New York books, May 31, 1930	43, 593. 16	
		$815, 759. 07
Reserve for contingencies:		
New York office	70, 000. 00	
Shanghai	137, 000. 00	
Hong Kong	50, 000. 00	
Tientsin	13, 000. 00	
		270, 000. 00
Reserve for taxes	181, 303. 94	
Reserve for future exchange, foreign offices	43, 593. 16	
		224, 897. 10
		494, 897. 10

H. C. TITUS, *General Manager.*

The Chase Safe Deposit Co. balance sheet at close of business March 31, 1930

ASSETS

Cash on hand and in bank		$51, 232. 97
Vaults	$959, 165. 24	
Less reserve for deposit	465, 802. 40	
		493, 362. 84
Fixtures	582, 050. 72	
Less reserve for deposit	240, 234. 14	
		341, 816. 58
Furniture	20, 707. 75	
Less reserve for deposit	13, 911. 76	
		6, 795. 99
Auto truck	1, 404. 47	
Less reserve for deposit	1, 141. 14	
		263. 33
Accounts receivable:		
Due from rentals	32, 711. 11	
Due from storage	6, 422. 73	
Due from cartage	223. 99	
Due from key and lock charges	73. 00	
		39, 430. 83
Total		932, 902. 54

LIABILITIES AND CAPITAL

Capital		$400, 000. 00
Profit and loss		69, 671. 49
Notes payable		420, 000. 00
Key deposit fund		3, 759. 00
Income tax withheld, New York State		41. 22
Past-due rentals	$32, 711. 11	
Past-due storage	6, 422. 73	
Past-due cartage	223. 99	
Past-due key and lock payments	73. 00	
		39, 430. 83
Total		932, 902. 54

The CHAIRMAN. The proposal has been made to this committee that branch banking be permitted to extend beyond its present limits to trade areas whose limits are still undefined. There is some question in the minds of the committee as to whether or not trade area limits can be properly defined. Other suggestions have been made to the committee that branch banking be extended state-wide in those States where branch banking is permitted to State banks.

Other suggestions have been made that branch banking be extended to Federal reserve districts; other suggestions have been made that branch banking be permitted nation-wide, while still further reference has been made to the fact that the Federal reserve act permits international branch banking.

The committee would be glad to know the limits, if any, to which extensions should be granted under the national law, to branch banking.

Mr. WIGGIN. I do not know what trade areas are. While my preference would be not to have branch banking, New York is in the situation of being the banking center of the country. We have some 7,000 correspondent banks throughout the country. The New York banks render the same service to towns in the mid-west or towns on the Pacific slope as they do to towns in Connecticut and New Jersey. There is just as much reason for a New York bank having a branch in a Pennsylvania town or an Ohio town or an Indiana town or a Kansas town as there is for having one in Connecticut or New Jersey and our own preference would be not to see an extension of branch banking.

The CHAIRMAN. Beyond its present limits?

Mr. WIGGIN. Yes, sir. We think that a national bank should have the same privileges of branch banking in one city as in another. We think if State banks can have branches in any city, a national bank should have the same right and, vice versa, if the national banks are allowed to have a branch bank in a city, a State bank should have that privilege. I am speaking of the limitations on branch banks confined to the city.

The CHAIRMAN. If the State law premits branches within the confines of the State to the State banks, you think the national banks be given the same privilege?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. You can see difficulties, however, in the way of conflict over Federal reserve lines and State lines?

Mr. WIGGIN. Great difficulties; yes.

The CHAIRMAN. As you know, we have had before this committee the heads of various groups who engaged in this comparatively new form of group and chain banking. The committee would be glad to

have your views on this new development which is proceeding under the authority of State laws, many of the corporations being organized under the laws of the State of Delaware, taking over both national and State banks and State bank members of the Federal reserve as well as nonmembers, with particular reference to its effect on the banking development of the United States and its possible effect on the continued development of the Federal reserve system.

Mr. WIGGIN. My own opinion is that we, of the Chase National Bank, do not want to do it, but we have not the slightest objection to other men doing it. We feel that in certain districts—and there are many cases, as you know, of these holding companies—such a district as the one that centers on St. Paul and Minneapolis, where they go into the towns which they know and the business they know and own the banks—we have not the slightest objection to their doing it and we believe does strengthen the banks of those towns.

But we do not want to do it ourselves because if we start, there will be no limit to it. There is just as much reason for doing it in one State as another.

Mr. LUCE. The astonishing growth of the investment trusts in recent years—almost within recent months—has brought into consideration a wholly new factor that has not yet been widely discussed in connection with banking.

A recent writer, however, publishing a series of articles on the subject that indicate familiarity with it, hazards the prediction that within a comparatively short number of years no individual stockholders will remain in the important banks. This suggests a novel form of holding and not, on its face, the usual kind of holding company that appears, for instance, in the public service field, but still one that threatens or promises, according to how you look at it, a new relation between a bank and those who operate it. Does your observation indicate that this process is making rapid headway in New York?

Mr. WIGGIN. A number of the investment trusts that are located in New York have made investments in bank stocks. Now, as to the amount of percentage, I would not say, but there are substantial ownerships of bank stocks in investment trusts.

Mr. LUCE. Do you have any apprehension that this may furnish you a new problem?

Mr. WIGGIN. No, sir. The successful bank, or the standing of the bank, goes hand in hand with the reputation of the management, and the ownership of the stock, if the property is not properly run, would not help or hurt it. It is the management that makes the reputation of the bank.

Mr. LUCE. You are speaking, of course, from the point of view of one who could properly be called a big banker. We had before us one witness who was more concerned with the banks in the smaller cities and he expressed the opinion that the personality of the stockholders was of prime importance to the banks in the matter of bringing business and good will. In a large bank, such as your, does that count for anything?

Mr. WIGGIN. Yes; the stockholders bring business. We enlist their cooperation the moment they become stockholders and ask them to bring us business.

Mr. LUCE. Any advantage accruing in that direction would disappear under the investment trust holdings?

Mr. WIGGIN. Not necessarily. In New York, some of these investment trusts are very good customers.

Mr. LUCE. But the holdings or the holders in the investment trust are not reached by you?

Mr. WIGGIN. No.

Mr. LUCE. That leads me to point out to you that the champions of group banking before us have permitted us to understand or secure the impression that the group-banking principle leads to a combination of the solid and substantial banks; that the head of a group system makes no endeavor to salvage the weaker banks that are on the point of failing and avoids bringing in anything but the clearly profitable institutions.

Our hearings started off on the premise presented by the comptroller that there was great need to face the situation presented by the alarming number of failures of small banks, and he urged branch banking upon us as a remedy, or at least a help, in the critical situation prevailing especially in the Northwest and in some of the Southern States.

Apparently group banking promises no benefit in that connection and, as far as witnesses have enlightened us, it would seem as if branch banking was the only recourse in the case of a great many of the smaller communities which would be completely deprived of banking facilities if the present tendency to close the little banks continues and nothing is put in their places.

You have branches in various parts of New York City?

Mr. WIGGIN. We have 46.

Mr. LUCE. And that serves a public convenience to the customers?

Mr. WIGGIN. Yes, sir.

Mr. LUCE. Do you see any objection, in principle, to furnishing the same convenience to customers in places more remote? Why should this affect the principle involved?

Mr. WIGGIN. It may not affect the principle involved, but it certainly makes management a very much more difficult problem. The only branches we have in New York City are run from the head office. There are no loans made without being passed on by the head office. That is not practicable in far-distant offices.

Mr. LUCE. Yet, in the upper end of Harlem, there would appear to be no more occasion for a teller's window than in the outskirts of Jersey City, would there?

Mr. WIGGIN. There would be no more occasion for a teller's window?

Mr. LUCE. I speak of a teller's window as simply a convenient way of compressing in one phrase all the routine facilities that may be furnished by some type of banking in a small suburb or in a rural community.

Mr. WIGGIN. Yes; there is just as much reason for a bank in one section as another.

Mr. LUCE. Is there any reason, in principle, why you should not be allowed to open a branch?

Mr. WIGGIN. No; the principle is the same. In Jersey City we could run a branch just as well as in Harlem. You are right.

Mr. LUCE. Then, to some extent, at any rate, the State lines have no logical relation?

Mr. WIGGIN. Jersey City is really a suburb of New York City, as you know. The fact the State line is there does not make any difference. I agree with you entirely that it is just as practicable to run a branch in Jersey City as in Harlem.

Mr. LUCE. That brings us to the proposal of the comptroller that we consider trade areas. It is a difficult thing to determine, of course, but still the most practical thing, perhaps, that has been suggested to us.

Would you find objection to accepting his proposal with reference to extending branch banking to trade areas?

Mr. WIGGIN. I do not know what a trade area is. If you will tell me what a trade area is, I will try to give you an answer.

Mr. GOLDSBOROUGH. You are asking for something that can not be done.

Mr. WIGGIN. How can I answer it, then?

Mr. LUCE. In the Federal reserve districts, we approximate big trade areas, and there has been no great complaint—some friction, it is true—but no great complaint as to the mapping out of these great trade areas; those that feed the big cities. Would it be essentially more difficult to subdivide those 12 big areas we have already determined?

Mr. WIGGIN. Of course, we do not want to see a system of branch banking established that means that the banks in the cities of the country are going out in competition to buy up the banks in the small towns. We hope that it would not come. We do not think it is the way to build up a banking business—to go in on the basis of competition to buy up other banks, and that is exactly what will happen if you establish that system.

Mr. LUCE. As I said to Mr. Davison yesterday, quoting the that very trite saying that it is a condition and not a theory that confronts us—that while we are talking about principles in this room, the practice is, with leaps and bounds, proceeding to the contrary. Holding companies are growing every day, and group systems are growing every day, and we are faced not with putting into effect theories, where we might be in perfect accord but with the problem presented by the fact that these holding companies are growing and are doing this very thing.

Mr. WIGGIN. We feel if there were a branch banking system started, we would be compelled, for the protection of our stockholders' interests, to establish branches through the country and in the various towns. We do not want to do it. We are not under that compulsion under the present system. If anybody wants to do it, God bless them; let them do it; but we do not want to do it. However, we have no reason for stopping other men, if they want to invest their money that way.

I do think the holding company, in a great many ways, adds to the strength of a bank in a small place. Naturally, no bank in Minneapolis or St. Paul is going to buy a bank in Stillwater, or somewhere else in Minnesota, unless it is a good bank when it is bought, but if conditions change and conditions in the surrounding districts are such that the bank loses money, the ownership of that bank is a great addition to its strength, if it is the right holding company.

Mr. LUCE. Let me get a little clearer idea of why you discriminate between the effect of branch banking and group banking in that

matter of business compulsion upon you. Suppose that somebody in control of one of the New York banks goes and buys a bank in Orange, N. J., or any place in New Jersey, or anywhere else: The same man controls the two banks, but they continue under separate names. You, I gather, bid that man Godspeed and do not worry about it.

Mr. WIGGIN. That is right.

Mr. LUCE. But if, instead of keeping the same name, the man in control changes the name of the Orange bank to the same name as used by the New York bank and calls it a branch, you then feel you would be compelled to do the same thing. Why?

Mr. WIGGIN. Competition.

Mr. LUCE. Is not the group bank bringing you the same competition?

Mr. WIGGIN. No. It may some day, but it has not yet affected us and we do not believe it will.

Mr. LUCE. In Massachusetts, my understanding is it is already doing it.

Mr. WIGGIN. I think the situation in Massachusetts is perhaps different from the one in New York; or rather, I will put it differently: Boston is the New England banking center, but I do not think Boston serves the entire country as New York does.

Mr. LUCE. No.

Mr. WIGGIN. I think there is a natural geographic limit in that branch banking that does not exist in the case of New York.

Mr. LUCE. That does not affect the puzzle before us of this question of favoring or discouraging branch banking or group banking or both of them or neither of them. That is the problem we are up against—a practical problem—and I wanted to clear, in my own mind, if I could, why branch banking would have a more pronounced effect than group banks upon big city banks.

Mr. WIGGIN. We feel that there is a marked difference.

Mr. LUCE. One other aspect of the situation. We have had some witnesses who have testified in the case of banks in which they are interested, that have affiliated companies—securities companies—and we have been assured that the securities companies are not permitted to buy any securities in which the bank is interested. Is that the case with your bank?

Mr. WIGGIN. Our bank does not have any securities, practically, so that question does not come up. We do make it a rule not to have any of our trusts buy from the bank or from an affiliated company.

Mr. LUCE. But that rule is not universal?

Mr. WIGGIN. No, sir.

Mr. LUCE. Would you think it desirable, by legislation, to insure something of that sort?

Mr. WIGGIN. I do not think so. No laws under the sun would cover it if there was a desire to evade it.

Mr. LUCE. You, of course, are perfectly familiar with the fact that, in Massachusetts, we have embodied the idea, which I am bringing out, in our laws, requiring State banks, known as trust companies with us, to comply with the restrictions imposed on mutual savings banks for the segregation of deposits and that we so strongly believe in drawing special safeguards around the savings of the masses for the same reasons, with reference to trust holdings, that we insist

upon a particularly safe type of investment and we are quite complacent and self-satisfied in the effect of that legislation.

Does your experience in New York lead you to think that that is an unnecessarily cautious policy?

Mr. WIGGIN. I do not know that it is unnecessarily cautious, but it gets back to what we think is the essential question of banking. You would not select any institution on the basis of laws, but on the basis of its standing and credit.

Mr. LUCE. That is true in some of the larger places, but in some of the smaller places, that would impose the necessity upon the depositor of traveling some 20 or 50 miles to such a State institution, instead of using the institution next door.

Mr. WIGGIN. That is true.

Mr. LUCE. We have had it impressed on us, that due to the failures of these small banks in the last 10 years, there has been great suffering to the salaried man and wage earner through this failure to make savings a preferred account. I think that is all.

The CHAIRMAN. I should like to ask you whether your bank is affiliated with, or sny of your companies associated with, any other banking house in New York or elsewhere which might be construed as one of the major institutions?

Mr. WIGGIN. Only those I have mentioned.

The CHAIRMAN. Those are all, then, your own affiliations?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. The suggestion has been made that your group owns and controls the Transamerica Corporation.

Mr. WIGGIN. We have not the slightest interest in it.

The CHAIRMAN. Or the Transamerica Corporation embraces the controlling stockholders in your group.

Mr. WIGGIN. The bank has not the slightest interest in the Transamerica Corporation. There may be some stockholders in the Transamerica Corporation that own stock in the Chase National Bank. That we have no way of checking, but there is nothing of the slightest importance or significance in it.

The CHAIRMAN. Of course the size of your institution and the activities of late indicate the growth of a very powerful institution which is doing business that is not only nation-wide but international in its scope. Would you care to express what the scope of the Chase National Bank is?

Mr. WIGGIN. The Chast National Bank is a large institution with tremendous capital. It has a very large commercial business. It has, by far, the greatest number of bank accounts in the United States. It has built up a very large trust department under a committee of unusually high reputation. It does a world business—not in every country, but in most of the countries in Europe. We have correspondents and connections and receive business from many of those countries.

The CHAIRMAN. And you undoubtedly do business with some of the foreign countries?

Mr. WIGGIN. Yes; we have business with the countries and with the Government banks of the countries. Does that cover it, Mr. Chairman?

The CHAIRMAN. Well, in further elucidation, it is a frequent comment throughout the country in this development and concentration of bank resources that ultimately we will have in New York City from two to six banks patterned somewhat after the system of the two banks in London, with branches scattered all over. Do you contemplate future development in New York to that extent?

Mr. WIGGIN. No, sir; I think there will always be the middle-sized bank and the little bank.

The CHAIRMAN. I should like to ask further, in connection with your bank and your affiliated companies—who originate securities and who, of course, are interested in seeing that the securities in which you are interested move properly and are properly recognized—whether you protect the market on the securities which your companies originate and whether you protect the stocks of your own bank and affiliated companies?

Mr. WIGGIN. The securities business and the origination of securities issues is usually done by the formation of a syndicate. Usually there is, in conjunction with the formation of the syndicate, a syndicate formed for the purpose of what you allude to as the protection of the market in the buying and selling of securities.

The CHAIRMAN. Mr. Brand, have you any questions?

Mr. BRAND. I yield to Mr. Seiberling.

Mr. SEIBERLING. I have no questions at this time.

Mr. BRAND. I yield to Mr. Busby.

Mr. BUSBY. I have no questions to ask at present.

The CHAIRMAN. Mr. Steagall?

Mr. STEAGALL. I yield to Mr. Seiberling.

The CHAIRMAN. I will call on Mrs. Pratt first.

Mrs. PRATT. Is everybody frightened? [Laughter.] I have not very many questions to ask Mr. Wiggin.

This whole situation and these hearings have arisen from the fact that it seems desirable to make some change in the laws and enact some provision by which the small communities will have proper banking facilities without facing the fiasco some have faced during the last 9 or 10 years. So this question of branch banking has been presented.

I judge from what you say, Mr. Wiggin, that you are utterly opposed to branch banking.

Mr. WIGGIN. I would prefer not to see it.

Mrs. PRATT. When Mr. Davison was here yesterday, he stated that he felt that through the system of having correspondent banks that situation would be covered and eventually it would adjust itself; that the real trouble that was being faced in this country was due to the country being top-heavy, more or less, with banks, owing to emergencies that occurred during the war. You would agree with him that this can be taken care of by existing banks strengthening their correspondents?

Mr. WIGGIN. That is what has been going on, but there have been failures in certain districts regardless of that. We have this great number of what are known as country bank accounts, but we do not feel justified in loaning those country banks money unless they are solvent.

Mrs. PRATT. But if they got into trouble, as your correspondent bank, you would help them out?

Mr. WIGGIN. We are doing it all the time, as long as they are solvent.

Mrs. PRATT. What would you have in mind as proposed legislation necessary to be adopted, or do you think none should be adopted?

Mr. WIGGIN. I would leave the situation as it is.

Mrs. PRATT. I think that is all.

Mr. BRAND. With reference to questions the present chairman of the committee (Mr. Luce) propounded to you in regard to the situation in the Northwestern States and Southern States, what would you suggest to remedy this situation in the agricultural sections referred to by Mr. Luce—in regard to the character of banks that ought to be established to accommodate the borrowers in these sections of the country?

Mr. WIGGIN. You are referring to losses suffered by depositors and not losses made by the stockholders?

Mr. BRAND. I am referring to those sections of the country where banks have failed to such an extent they have no banking facilities at present and therefore borrowers, generally, have no opportunity to secure loans.

We have been discussing chain banking and branch banking and group banking. I should like to get your opinion as to what character of banks or what banking system should be established to accommodate the people in those sections of the country.

Mr. WIGGIN. There is no reason, under the present law, why they can not organize their own banks and go ahead as always.

Mr. BRAND. Take Georgia, for instance: The State has repealed its branch banking law and there are several sections of the State and, I think in Alabama also—although Mr. Steagall can speak for that State—and in South Carolina and several other States which are in the same situation, which is a serious one.

Mr. WIGGIN. Serious in the point that they have no place to deposit money?

Mr. BRAND. I mean no banking facilities. It is true they can go to Macon or Savannah or Atlanta, but those places are 75 or 100 miles away.

Mr. STEAGALL. The difficulty is not in finding a place to deposit, but a place at which they can borrow.

Mr. WIGGIN. I thought so.

Mr. BRAND. Many people in different sections of the country have money but they are keeping it at home and putting it in no banks. They have lost confidence in the banks because they have failed so much but I am asking about people who want to borrow money and have no bank to loan the money.

Mr. STEAGALL. There is some of that, of course.

Mr. BRAND. I myself have not the same confidence in the banks that I used to have. However, the question I am propounding is, Should this Congress authorize a branch banking system to accommodate such people or group banking or unit banking?

Mr. WIGGIN. I do not suppose a change in the law permitting branch banking in that section or in a more comprehensive section, would justify banks in opening branches in communities that would not support banks.

Mr. BRAND. Well——

Mr. WIGGIN. Why should a bank put a branch in a place that is not going to be profitable and their records indicate it would not be profitable?

Mr. BRAND. I am not taking such a position. You appear to be willing to let the situation remain as it is in all these great agricultural sections of the country?

Mr. WIGGIN. Your banks have failed in certain sections, and there are no banking facilities left. The cause of it was too much credit. The farmers borrowed too much money. You made it too easy for him, and that has caused the banks to fail.

Mr. BRAND. I am talking about the situation as it exists and as I have tried to picture to you.

Mr. WIGGIN. I am talking about what will justify another bank in organizing or in putting a branch there if that is the situation.

Mr. BRAND. Capital is willing to go anywhere and put its money in operation where the field is open and vacant if it is profitable for a bank to do so. Of course, it is assumed they will not lend to anybody who will not give good security. I am assuming a situation exists where there are no banking facilities, on account of the failure of banks, and where people want to borrow money and make loans to carry on their farms and operate their businesses, and where they can give satisfactory security.

Mr. WIGGIN. Yet the previous bank had failed.

Mr. BRAND. Yes.

Mr. WIGGIN. It is not a very encouraging situation in opening a bank.

Mr. BRAND. Do you think that chain or group or branch banking would be preferable?

Mr. WIGGIN. I do not think either one would be attracted by that opportunity. I think an independent bank could be established as well as a group or chain or branch bank started. However, the opportunity is not very attractive.

Mr. BRAND. Suppose you, as a banker, should reach the conclusion to go into any section of Georgia, Alabama, or any other southern State and establish a branch which you think would be profitable to you—and that is all the banks are in business for, to make money; they are not in it for patriotism; what system would you suggest, as a banker, at the head of one of the biggest banks in the world, to take care of that situation?

Mr. WIGGIN. In a district that has a bad record?

Mr. BRAND. You would let them go?

Mr. WIGGIN. I would answer that this way——

Mr. BRAND. Up to date, you have not given me any answer to that question.

Mr. WIGGIN. I think I have given one or two answers. I think this is the answer to that——

Mr. BRAND. You are satisfied with the situation in your territory, but we are not in ours. New York is not the only State in this Union. There are other parts of the country that are willing to contribute to its general welfare if given an opportunity. You have customers, I suppose, in Georgia?

Mr. WIGGIN. A great many of them.

Mr. BRAND. Naturally, you would be interested in the State.

Mr. WIGGIN. Very much. We have done a great deal for the State, as you know.

Mr. BRAND. I know that.

Mr. WIGGIN. Now, if you will tell me the questions, I will see if I can answer them.

Mr. BRAND. Conceding, or assuming say, there are half a dozen great agricultural communities in South Carolina, Georgia, North Carolina, and so forth, that have no banking facilities; the people being engaged in agricultural pursuits and all sorts of business in the little towns and cities, and also assuming that if a bank was put up in some of those sections, it would make money; in your judgment, what character of banking system would you recommend to those sections of the country?

Mr. WIGGIN. I think if the community will support a bank, the community would start a bank.

Mr. BRAND. How can they start a bank if there is no capital there?

Mr. WIGGIN. Then, there is no occasion for a bank.

Mr. BRAND. You can not sell any stock in any bank in Georgia that I know of, outside of Atlanta and Savannah, to people who have got money.

Mr. WIGGIN. If they have money, they ought to start the bank themselves.

Mr. BRAND. I am talking about people without money, but who have good and satisfactory security and who want to borrow money to do business with, say, as a farmer or merchant.

Mr. WIGGIN. That is the best answer I can give.

Mr. BRAND. Which, I respectfully submit, is not an answer to my question.

Mr. SEIBERLING. Mr. Wiggin, I take it you have made quite a study of this problem we have before us here.

Mr. WIGGIN. I do not claim to have done that; no, sir.

Mr. SEIBERLING. You have studied it sufficiently to make up your mind that you are not in favor of group, chain, or branch banking?

Mr. WIGGIN. I did not say that. I said we did not want to do it ourselves.

Mr. SEIBERLING. If it was a good thing, you would want to get into it, would you not?

Mr. WIGGIN. It may be good for the other fellow, but we do not want to get in it.

Mr. SEIBERLING. Between group, chain, and branch banking, which one would you prefer?

Mr. WIGGIN. I do not think it is possible to answer that question until you know what the branch-banking plan would be—how far——

Mr. SEIBERLING. I mean in limited areas.

Mr. WIGGIN. I would just as soon have chain banking, from my personal interest, rather than branch banking.

Mr. SEIBERLING. I am talking from the standpoint of the interest of the country.

Mr. WIGGIN. I think chain banking would be as safe as branch banking. If you have branch banking, it is one risk for the whole system, just as it is for the chain. If the parent bank is not well managed, the whole thing goes.

Mr. SEIBERLING. Now, I understand that you are at the head of the largest bank in the world, with a capital of $148,000,000 and total resources of $2,400,000,000, approximately.

Mr. WIGGIN. I am the head of the Chase National Bank, but I never know whether it is the largest until I see the figures of the other banks.

Mr. SEIBERLING. Well, it was yesterday.

Mr. WIGGIN. I do not know until I see the figures for the Midland.

Mr. SEIBERLING. Well, it is one of the largest.

Mr. WIGGIN. Yes.

Mr. SEIBERLING. Have you given us the number of branches?

Mr. WIGGIN. Forty-six in New York city and four foreign branches.

Mr. SEIBERLING. How large is the Chase Securities Co., in total resources?

Mr. WIGGIN. About $130,000,000.

Mr. SEIBERLING. Where does it have offices and branches?

Mr. WIGGIN. Its main office is in New York City, and it has offices in Boston, Albany, Cleveland, Chicago, Philadelphia, Washington, St. Louis, San Francisco, and Los Angeles.

Mr. SEIBERLING. Has the Chase Securities Co. also foreign branches?

Mr. WIGGIN. They have an office in London and also in Paris.

Mr. SEIBERLING. In what manner is the Chase Securities Co. controlled by the Chase National Bank—stock control, I mean.

Mr. WIGGIN. The stockholders are exactly the same. Neither corporation owns the other. When you buy a share of what is listed on the Street as Chase National Bank, what you really get is a certificate of deposit saying that you are the owner of one share, or whatever it may be, of the Chase National Bank, and also one share of the Chase Securities Co.

Mr. SEIBERLING. The number of shares is exactly alike?

Mr. WIGGIN. Yes; and they can not be separated.

Mr. SEIBERLING. Then, the Chase Securities Co. stock is all deposited with the Chase National Bank and you issue one certificate for both?

Mr. WIGGIN. For years it has been deposited with the Bankers Trust Co.

Mr. SEIBERLING. Have you given us a complete list of the principal corporations in which the Chase Securities Co. owns the majority of the stock or is in any manner tied up with the Chase National Bank or the Chase Securities Co., through stock control?

Mr. WIGGIN. I have tried to. Have you anything in mind that may assist me?

Mr. SEIBERLING. I was thinking of the American Express Co.

Mr. WIGGIN. I mentioned that.

Mr. SEIBERLING. How much do you own?

Mr. WIGGIN. Ninety-eight per cent.

Mr. SEIBERLING. Where are their branches located?

Mr. WIGGIN. Thirty-four of them are in this country and 66 in other countries.

Mr. SEIBERLING. Do you count in such an office as we have in Columbus Ohio, and Cincinnati, where the American Express Co. does business?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. Does not the American Express Co. have offices in almost every town and hamlet in the country?

Mr. WIGGIN. In every office they issue checks, the American Express Co. does not own the office.

Mr. SEIBERLING. Do they not handle express business?

Mr. WIGGIN. No, sir; they are not in the express business. They are in the steamship ticket business and the selling of transportation; handling of a traveling bureau and so forth, and sell checks, but do not receive deposits.

Mr. SEIBERLING. Are not these 66 offices of the American Express Co. in foreign countries in reality branches?

Mr. WIGGIN. In Europe?

Mr. SEIBERLING. In this country.

Mr. WIGGIN. There are only 34 in this country.

Mr. SEIBERLING. Yes, those in this country.

Mr. WIGGIN. Not at all. They do no banking business. They simply sell tickets and are run as a travel bureau.

Mr. SEIBERLING. It would be readily possible to operate them as branches?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. And in a profitable manner?

Mr. WIGGIN. I do not know.

Mr. SEIBERLING. You have not tried that?

Mr. WIGGIN. No.

Mr. SEIBERLING. I have before me the bulletin called the "Chase Economic Bulletin," dated May 8, 1930, which I assume is an official publication of the Chase National Bank. This bulletin contains an article headed "Branch Banking Throughout the Federal Reserve Districts," by Benjamin M. Anderson, economist of the Chase National Bank of the city of New York. Am I correct in my assumption, Mr. Wiggin, that this represents the position of the Chase National Bank of New York with respect to branch banking?

Mr. WIGGIN. When you ask if it correctly states the position of the Chase National Bank, you must remember that the Chase National Bank stockholders or board of directors have not given any definite consideration nor have they come to any formal decision in this matter. That is Doctor Anderson's report and what he believes to be the best thing.

Mr. SEIBERLING. But put out by your bank?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. And headed "A Revolutionary Proposal." I do not know whether that is intended to be complimentary or not. George Washington had a perfectly good revolutionary proposal.

Mr. WIGGIN. If it would suit you, Doctor Anderson is here and Doctor Anderson will testify to-morrow and you can put it up to him.

Mr. SEIBERLING. Do you say that this represents the sentiment of the Chase National Bank of the city of New York or does not represent it? You are at the head of the bank.

Mr. WIGGIN. I will not say it either does or does not. I will repeat what I said a moment ago, that the stockholders have not considered the matter and instructed us nor have the directors considered the matter and instructed us. That is the opinion of our economist.

Mr. SEIBERLING. In reference to the opinion of the comptroller and the governor of the Federal reserve, representing the Government, from an entirely unselfish viewpoint for the benefit of the people of the country. You, of course, have put out this circular from a purely selfish business viewpoint.

Mr. WIGGIN. I do not think so. You can ask the doctor about it himself.

Mr. SEIBERLING. You have already stated you did not approve of branch banking.

Mr. WIGGIN. I have stated we would rather not see branch banking. I have great respect for the people who suggest it and great confidence in them, but we would prefer not to see it.

Mr. SEIBERLING. I understand you have testified that your bank has 7,000 correspondents—the Chase National Bank?

Mr. WIGGIN. Something like 7,000 bank correspondents; yes, sir.

Mr. SEIBERLING. Are these banks located all over the United States, or in any particular section?

Mr. WIGGIN. All over the United States.

Mr. SEIBERLING. You have correspondent banks in Southern States, such as Florida, Georgia, South Carolina, Alabama, and also in Western States?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. You lend your correspondent banks when they need funds, I take it?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. And you require collateral?

Mr. WIGGIN. We do.

Mr. SEIBERLING. You never make an exception in that?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. What are those exceptions?

Mr. WIGGIN. They are very, very rare.

Mr. SEIBERLING. And of course the bank pays interest on the loan?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. It would not be good business for you to lend correspondent banks unless you had good collateral for your loan?

Mr. WIGGIN. We would not be justified in lending the money unless we thought it was a good loan.

Mr. SEIBERLING. Then this correspondent system which you have is purely a business arrangement for profit to your bank? Is that correct?

Mr. WIGGIN. It is a business arrangement expected to be profitable to the bank and expected to be of benefit to the correspondent.

Mr. SEIBERLING. You are trying to increase your correspondents all the time?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. How many of your correspondent banks failed during the period 1920 to 1930?

Mr. WIGGIN. I can not answer that offhand—quite a number.

Mr. SEIBERLING. And they were mostly unit banks situated throughout the country?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. What did your bank do to keep these correspondent banks from failing?

Mr. WIGGIN. A bank that we believe to be solvent can borrow whatever it needs.

Mr. SEIBERLING. Well, who determines the solvency of the bank?

Mr. WIGGIN. The officer that is passing on the loans.

Mr. SEIBERLING. You are making the loan and you determine whether it is solvent?

Mr. WIGGIN. Some officer in the bank makes the decision.

Mr. SEIBERLING. You determine whether you want to make it and what collateral you want?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. When you lend a bank that needs money on collateral, that gives you a preferred claim, of course, on the assets of the bank?

Mr. WIGGIN. Only on the collateral.

Mr. SEIBERLING. If the bank fails later, you get your money before the depositors get theirs?

Mr. WIGGIN. If we have the collateral.

Mr. SEIBERLING. You stated you do not lend except on collateral. Now, your system of correspondent banks does not reach the root of our trouble here; that is, namely, to try and prevent the failure of banks throughout the country—does it?

Mr. WIGGIN. No. You always have bank failures.

Mr. SEIBERLING. But your system of correspondent banks which you indorse and engage in and want to extend, does not reach the root of the trouble that the comptroller of the currency and the governor of the Federal reserve board have to deal with here.

Mr. WIGGIN. It does not prevent bank failures?

Mr. SEIBERLING. Yes.

Mr. WIGGIN. No; and nothing else will.

Mr. SEIBERLING. What is your idea of the diversification as used in connection with loans made by banks? In this connection do you not distinguish between diversification of loans made by a bank in a given community and the explanation of diversification as made by Mr. Anderson in the article with respect to which is, as I understand it, the purchasing of securities through the correspondent city banks, the loaning of call money to the city bank, the purchase of open market commercial paper, readily marketable bonds and acceptances.

Mr. WIGGIN. What is that question again?

Mr. SEIBERLING. What is your idea of diversification? I will ask that first and then you can explain the others.

Mr. WIGGIN. I think a brief definition of diversification would be a variety of loans—a variety of kinds of loans.

Mr. SEIBERLING. Now, you purchase commercial paper, bonds and acceptances and lend money on call for these correspondent banks?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. And out of them you, of course, make a profit on every transaction, of some kind?

Mr. WIGGIN. Not out of every transaction.

Mr. SEIBERLING. What transaction would you not make a profit on?

Mr. WIGGIN. Read them off and I will tell you.

Mr. SEIBERLING. Loaning of call money.

Mr. WIGGIN. Yes, there is a charge for that.

Mr. SEIBERLING. The purchase of open market commercial paper.

Mr. WIGGIN. There is no charge on that.

Mr. SEIBERLING. Of course if you pay par for that paper, it has to have an interest rate higher than the New York rate, or you would not pay par for it.

Mr. WIGGIN. I do not understand that question.

Mr. SEIBERLING. If you purchase for par it has to carry an interest rate higher than the New York prevailing rate.

Mr. WIGGIN. It does not necessarily.

Mr. SEIBERLING. What is the call money rate to-day?

Mr. WIGGIN. Three per cent.

Mr. SEIBERLING. Are you buying commercial paper on 3 per cent?

Mr. WIGGIN. I see what you mean. The commercial paper is usually higher than the call rate. Sometimes it is higher and sometimes lower.

Mr. SEIBERLING. As a usual thing, you make money out of that transaction?

Mr. WIGGIN. No, sir.

Mr. SEIBERLING. Now, if we had branches in these localities throughout the country, under Mr. Anderson's set-up here, in his address, his plan takes money from the rural community and throws it into the metropolitan center, does it not?

Mr. WIGGIN. I wish you would ask Doctor Anderson that question.

Mr. SEIBERLING. If money is sent down to be put on call, it takes it out of the local community and puts it in the metropolitan center?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. Your correspondent banks maintain balances with you?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. They can purchase securities from your bank or upon your advice—take your advice on that?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. Is that about a description of the relationship between your bank and the correspondent bank?

Mr. WIGGIN. I did not realize we were making a description of all the relations.

Mr. SEIBERLING. Well, will you make one, briefly?

Mr. WIGGIN. The correspondent bank finds it desirable to keep an account in New York——

Mr. SEIBERLING. It is required by you, is it not?

Mr. WIGGIN. No; I wish we could require it.

Mr. SEIBERLING. To some extent?

Mr. WIGGIN. We can not require it. We are glad to get them.

Mr. SEIBERLING. You mean to say you let a correspondent bank draw a draft on you that does not have a deposit in your bank?

Mr. WIGGIN. We would not pay it.

Mr. SEIBERLING. The business necessities require that they maintain a balance with you?

Mr. WIGGIN. Most of the banks keep an account with us and we are very glad to have them, and we handle the accounts and pay their checks and receive their deposits and follow their instructions with reference to the payment of papers and delivery of securities. It is a regular banking business.

Mr. SEIBERLING. Can you estimate the deposits that come to your bank from the 7,000 correspondent banks?

Mr. WIGGIN. I am sorry I can not give you that figure.

Mr. SEIBERLING. It is a large amount?

Mr. WIGGIN. Several hundred millions.

Mr. SEIBERLING. And with the call money rate high, like it was last year, you would make a lot of money on those deposits?

Mr. WIGGIN. As a matter of fact, they lend the money themselves. We get our charge, of course, for lending the money.

Mr. SEIBERLING. They could not draw their balances down very close?

Mr. WIGGIN. It depends on the banks. As a matter of fact, we do not have much opportunity to put out call money for ourselves at those rates, as you can readily understand. The customers were loaning their own money.

Mr. SEIBERLING. This system that you want to stick to and are indorsing, is very profitable to the New York banks in all their relationships?

Mr. WIGGIN. We regard our business from the out-of-town banks as good business.

Mr. SEIBERLING. Of course you do not want to lose that business?

Mr. WIGGIN. No.

Mr. SEIBERLING. Now, if Congress were to adopt the trade area plan of branch banking and there were, say, 35 different areas with large parent banks and many of the banks now correspondents became branches of these banks, you and the New York banks would lose a great many correspondents, would you not?

Mr. WIGGIN. I think so. We might have to go into the business.

Mr. SEIBERLING. And you would lose a profitable business and prestige?

Mr. WIGGIN. Yes, sir; possibly. We might have to go into the business ourselves.

Mr. SEIBERLING. Would not these large independent parent banks be much more independent of New York, which is now the money center, as you state, than they are at the present time?

Mr. WIGGIN. Possibly.

Mr. SEIBERLING. In other words, many of them would be large enough to stand on their own feet and finance industries in their own sections?

Mr. WIGGIN. They do now.

Mr. SEIBERLING. But they would be much more able to do so?

Mr. WIGGIN. Possibly.

Mr. SEIBERLING. Now, Mr. Wiggin, I just want to ask this question: Is not that the main reason why the Chase National Bank, according to this bulletin and yourself, are opposing the comptroller's and the Federal reserve's proposal about branch banking?

Mr. WIGGIN. Not at all. If we were confident it was to the best interests of the country, we would not object to it.

Mr. SEIBERLING. Now, country banks can choose their own correspondents in New York?

Mr. WIGGIN. Yes, sir.

Mr. SEIBERLING. And some have several correspondents?

Mr. WIGGIN. Yes.

Mr. SEIBERLING. So that you are not able, in the slightest degree, to dictate to the country bank how it shall run its business?

Mr. WIGGIN. That is true.

Mr. SEIBERLING. You are therefore not in a position to assist the country in encouraging and carrying on a proper banking policy?

Mr. WIGGIN. Well, if they want assistance from us, they must keep their bank in shape.

Mr. SEIBERLING. If they want assistance from you, but as long as they merely carry a balance with you, you have no influence with hem in that regard and can not exercise any?

Mr. WIGGIN. Absolutely not.

Mr. SEIBERLING. Now, as a matter of fact, this correspondent bank system means a profit to the city correspondent, but does not keep the correspondent banks from failing?

Mr. WIGGIN. That is right; nothing will keep some banks from failing.

Mr. SEIBERLING. If you had a large branch banking system with a big metropolitan bank back of the system, there would not be any danger of the small bank failing?

Mr. WIGGIN. It would depend on the metropolitan bank. We have had failures in big cities.

Mr. SEIBERLING. But not very often?

Mr. WIGGIN. No.

Mr. SEIBERLING. It would be less likely to fail?

Mr. WIGGIN. It would be a larger bank, of course.

Mr. SEIBERLING. You have testified that you operate your branches abroad successfully and that the branches of the securities companies are operated successfully and those of the express company. Why can you not operate branches of the bank successfully in a more limited trade area?

Mr. WIGGIN. I have not so testified. Perhaps we can.

Mr. SEIBERLING. But you are a successful banker.

Mr. WIGGIN. I think so, but we have had two of the branches only two days.

Mr. SEIBERLING. But the branches you have had have been successful?

Mr. WIGGIN. Habana has not been successful.

Mr. SEIBERLING. As a whole, they have been successful or else your bank would not be successful.

Mr. WIGGIN. But I do not think that bears on the question. As a matter of fact, they have not been successful. I am perfectly willing to grant that some branches would be successful.

Mr. SEIBERLING. Well, now, your bank is the largest in the world—I think it is—with branches in New York City and abroad and affiliated with the Chase Securities Co., doing business all over the world, with the recent acquisition of the American Express Co., and the organization of the American Express Trust Co., with branches in every important city in the civilized world, and you are hardly in a position as has Doctor Anderson that it is "The creation of giant branch banking systems, with enormous capital, ranging over 'trade areas' which may equal Federal reserve districts in size"?

Mr. WIGGIN. We have no national branch banking system at all.

Mr. SEIBERLING. You have branches in Europe and in this country?

Mr. WIGGIN. We have a branch in London, a branch in Habana, and two branches at the Isthmus.

Mr. SEIBERLING. Do you not think that Doctor Anderson is the last person in the world that should arouse fear on account of the concentration of enormous banking capital, and so forth?

Mr. WIGGIN. Well, you will have to ask the doctor that question, but I do not think he has aroused very much fear.

Mr. SEIBERLING. I think that is all.

Mr. BUSBY. I will ask this one question, if I may: Mr. Davison, who was with us yesterday, said that the correspondent bank was performing every function that the branch bank could perform to

the outlying section of the country, he having in mind particularly the New York banks of a type like his and yours and others.

The branch bank established in some outlying section would naturally have the cooperation of the parent bank to this extent, over the correspondent bank, if I understand it, that the parent bank would stay by the branch bank even when the branch bank was losing money in operating, especially if bad crops or some local condition caused a disastrous situation to present itself from the standpoint of the bank; whereas your bank would not feel called on to go far enough to suffer any unforeseen losses in standing by your correspondents.

Mr. WIGGIN. Let me see if I understand it: If a bank had a branch in a town it would keep on lending money even though they did not think it was good?

Mr. BUSBY. That is part of it. But a branch in a town would be protected even when it was losing money by the parent bank.

Mr. WIGGIN. If the whole bank is solvent and good, that branch is perfectly protected. There is no question about that.

Mr. BUSBY. If it was apparent that its trouble was temporary in the locality where the branch was located, the parent bank would not hesitate to hang on and continue to continue to carry the branch along for months and months?

Mr. WIGGIN. Of course we do not know what they would do, but they would have to pay the debts of that office.

Mr. BUSBY. But the correspondent system would not have any obligation along that line.

Mr. WIGGIN. It would not have any legal obligation, but it is done.

Mr. BUSBY. It is not done to the extent that the parent bank would be called upon to protect its branch.

Mr. WIGGIN. There would be no legal obligation.

Mr. BUSBY. The correspondent bank would not feel and, in actuality, does not stay on with the correspondent in distress as a parent bank does with its branches?

Mr. WIGGIN. It frequently does.

Mr. BUSBY. I do not get an answer to my question, but by comparison, one with the other, the correspondent bank does not stay on as long as the parent bank would with its branches?

Mr. WIGGIN. Of course you are asking a very general question.

Mr. BUSBY. I am asking a general question to get through.

Mr. WIGGIN. I agree with you entirely that if a bank had a branch, legally responsible for the deposits, it would have to stay with it and see it through.

Mr. BUSBY. If it had a legal responsibility it would naturally have to stay with it and see it through further than a bank that had no legal obligations to the correspondent.

Mr. GOLDSBOROUGH. I just want to ask one question. Mr. Wiggin, Mr. Seiberling asked you if you were not benefited by the business you received from correspondent banks and whether that was or not the reason you did business with them, now, is it not a necessary incident to any trade that there is a benefit to both parties; that the deal would not take place unless it was a benefit to both parties?

Mr. WIGGIN. I agree with that.

Mr. GOLDSBOROUGH. And do you not think a bank, in a rural district, can be relied upon not to send money to New York to be loaned on call that is needed for the business purposes of the community in which the bank is doing business? Do you not think it would be bad business for the bank to send money to New York to be used on call that was needed for the local business?

Mr. WIGGIN. I think it is a bad business.

Mr. SEIBERLING. You asked whether it was done. He admitted it is bad business, but he did not answer the question as to whether it was done.

Mr. WIGGIN. I do not know whether it is done or not. I do not know about the needs of the local communities.

Mr. GOLDSBOROUGH. Now, is it not a fact that rural banks now have access to improved banking methods away beyond what they did when the country was being built up on the unit system?

Mr. WIGGIN. There is no question about it.

Mr. GOLDSBOROUGH. And under normal conditions, when we get away from the collpase of the war, do you not think that the unit system is just as valid as it was during the formative period of this country?

Mr. WIGGIN. I do.

Mr. GOLDSBOROUGH. Do you believe, Mr. Wiggin, that a rural community, which is supplied by a branch bank, will receive for its industries the same sympathetic help that it would from a unit bank?

Mr. WIGGIN. I think it depends entirely on the management. I do not see how you can come to a conclusion on that in general. I think it must be in specific cases.

Mr. GOLDSBOROUGH. Of course, that is so in anything, but as a rule—that is what I mean—would a branch bank of a metropolitan bank be as much interested in the local welfare as the unit bank, located in the section, would be.

Mr. WIGGIN. I think there may be a community feeling where the bank is owned in the community and is a local bank both in the way of deposits and loans. It would be perhaps a little more enthusiastic than if it were a branch of a distant bank.

Mr. GOLDSBOROUGH. Do you believe that the value of the moral risk would be considered as sympathetically by a branch bank as a unit bank?

Mr. WIGGIN. What kind of a risk?

Mr. GOLDSBOROUGH. The moral risk or the character risk?

Mr. WIGGIN. I think it would give consideration to that.

Mr. GOLDSBOROUGH. Are they in a position to do it when the loans are really considered by the metropolitan institution rather than by the branch?

Mr. WIGGIN. I think so. But you must remember that the bank is not going to lend its money, if it is a well-run institution, whether a unit or branch bank, unless they think it is good.

Mr. GOLDSBOROUGH. Of course not.

Mr. WIGGIN. They might be a little more liberal in a local unit bank than in the other, but I do not think you can answer that question except in specific cases.

Mr. GOLDSBOROUGH. The moral risk is really the principal thing to consider in a loan, in my opinion. I believe that the country banker, the unit banker, has a better conception of that part of the risk than the metropolitan bank would have.

Mr. WIGGIN. It may be. I do not believe you can answer those questions generally. You must remember that even if it is a branch, it must have a local man running it.

Mr. GOLDSBOROUGH. That is true, but he is circumscribed. He can only go so far, as a rule. You believe that local industries can be built up as well under a branch system as under the unit system?

Mr. WIGGIN. It depends on the management of the particular bank. There is no reason why they should not.

Mr. GOLDSBOROUGH. Then why do you object to the branch system? I object to the branch system for the reasons I have indicated, but you do not consider them valid. Why do you object to the branch system?

Mr. WIGGIN. I object to it because I do not believe we could run the business properly. Now, it depends on how far it goes. I do not want to see it start. There is just as much reason for the Chase National Bank having a branch in Wichita, Kans., as Hartford, Conn., and perhaps more, and we do not believe it is possible to run it at that distance. Perhaps I am a little inconsistent in my answers.

Mr. GOLDSBOROUGH. From a banking standpoint, you prefer the unit system?

Mr. WIGGIN. Yes.

Mr. GOLDSBOROUGH. From the public standpoint, you have no preference?

Mr. WIGGIN. From the public standpoint, I would prefer the unit system.

Mr. GOLDSBOROUGH. That is all.

Mr. GOODWIN. There is nothing complex or intricate about the correspondent system of banks?

Mr. WIGGIN. None at all.

Mr. GOODWIN. Are not the fundamental principles involved pretty much the same as between an individual depositor in a bank and the bank except you furnish some additional service in the way of advice and taking care of the business of the correspondent bank?

Mr. WIGGIN. It is very much the same.

Mr. GOODWIN. I live in Minnesota, in a State where we have had a great many bank failures, as you know. In studying this question I have come to the conclusion it is not the fault of the independent unit system that has caused the failures, but it is due to the mighty poor judgment on the part of the officers of the banks that failed, in loading themselves up with assets that were not liquid, but were frozen and remained so.

Mr. WIGGIN. I think in many cases the troubles have come from natural conditions.

Mr. GOODWIN. I have in mind several banks in my district—a small bank, in particular, with a capital of $30,000 and a surplus of $200,000 and total deposits of almost $2,000,000, situated in a section that is no different from other sections in my district. There are several such banks there—perhaps not as large as the one I speak of in volume of deposits or assets—but that indicated to me, with good prudent judgment in the matter of making loans and taking care of the bank's business, the unit bank can serve the public as faithfully now as in the past.

You are opposed to branch banking?

Mr, WIGGIN. I would prefer it as is. I do not say I am opposed to it, but I prefer the system as is.

Mr. GOODWIN. You think the present system of independent unit banks, with the branch banking in certain limited areas, can serve the country as faithfully in the future as it has in the past?

Mr. WIGGIN. I do.

Mr. BUSBY. I noted that at the peak of the loans on the stock market, when they loaned close to $7,000,000,000 a day, the New York banks furnished from their own funds about 16 per cent of those loans; that New York banks loaned, for the account of other banks outside, about 28 per cent of those loans, and that about 56 per cent of the loans were made by the New York banks for the account of others.

Now, undoubtedly the proportion of money loaned by the New York banks—16 per cent—was out of proportion to their assets compared with the assets of banks in other sections.

Mr. WIGGIN. Sixteen per cent was a greater portion——

Mr. BUSBY. A less proportion of their assets than the 28 per cent loaned for banks outside of New York, which had funds in New York City. I do not mean their total assets, but that had funds in New York City.

Mr. WIGGIN. I do not believe I get that question.

Mr. BUSBY. The New York banks had all their assets in the city and they had assets from correspondents in their hands.

Mr. WIGGIN. Yes.

Mr. BUSBY. The New York City banks, taking this as an arbitrary figure—but I think it is practically correct—loaned 16 per cent of the funds that were loaned on the New York Stock Exchange, most of which, or 90 per cent of which, was call money, and 28 per cent was loaned by New York banks for the account of outside banks. Was there not a disproportionate amount of funds loaned for outside banks than loaned by New York banks out of their own funds?

Mr. WIGGIN. That money from outside banks came from all over the country, and until you know what the total is it will be pretty hard to answer the question.

Mr. BUSBY. What do you get for loaning funds for other banks?

Mr. WIGGIN. One-half of 1 per cent interest.

Mr. BUSBY. If the funds loaned reached $7,000,000,000 average, that would be, I believe, $35,000,000 a year that all the banks in New York that were loaning money on the Stock Exchange would receive as their fee. That would amount to——

Mr. WIGGIN. Give me the question again and I will see if I can answer it.

Mr. BUSBY. If the money loaned on the New York Stock Exchange by the New York banks for which these banks received a fee of one-half of 1 per cent for making the loans, averaged $7,000,000,000, the average amount paid to New York banks for handling the loans would amount to $35,000,000 a year, and if they had 300 banking days in the year, that would give the New York banks a fee for handling that business, only a small percentage of which was their own funds, of something like $120,000 a day. Do you agree with that?

Mr. WIGGIN. I would have to figure it, but I would assume you are correct.

Mr. BUSBY. I just wanted to point out the source from which the profit came to the New York banks by having correspondents out-

side. I am not blaming them for having them or blaming the depositors for putting their money out on call.

Mr. WINNIN. Of course there was not any $70,000,000,000 loaned.

Mr. BUSBY. I said $7,000,000,000.

Mr. WIGGIN. Oh! The charge for loaning money on the Street—one-half of 1 per cent—was based as a low banking charge for the service rendered. The cost of handling it is enormous. The risk of handling it is enormous.

Mr. BUSBY. I might ask you to amplify that risk slightly.

Mr. WIGGIN. The risk of seeing that the collateral is not stolen from us and seeing that the collateral always covers the loan. There is a real risk in the business and there is a tremendous volume of detail. It is what we believe a just and a low charge for the service rendered.

Mr. BUSBY. Yet, withall, a very profitable business, when it amounts to $120,000 to the banks every day.

Mr. WIGGIN. You are figuring on gross figures.

The CHAIRMAN. Are you now a member of the clearing house committee?

Mr. WIGGIN. No, sir.

The CHAIRMAN. You have been a member of the clearing house committee?

Mr. WIGGIN. At various times.

The CHAIRMAN. We should have in this hearing an amplification of the functions of the New York Clearing House. I wonder if you could furnish us with the information.

Mr. WIGGIN. I had better not. I am not up to date. I would suggest the chairman of the clearing house committee.

The CHAIRMAN. Who is chairman now—do you recall?

Mr. WIGGIN. I think it may be Mr. Potter of the Guaranty Trust Co. I am not sure.

Mrs. PRATT. Perhaps I was stupid, but I did not quite understand Mr. Wiggin. These branches in Albany and other cities are branches of the Chase Securities Co.?

Mr. WIGGIN. Yes; they sell securities.

Mrs. PRATT. And you have branches abroad?

Mr. WIGGIN. Yes.

Mrs. PRATT. But through your securities company do you have what is practically a branch banking system?

Mr. WIGGIN. Not at all. They do not loan money or receive deposits. They simply try to distribute securities. They are a sort of selling agency.

The CHAIRMAN. Statements have been made to the committee as to the effect the building up of these trade area banks throughout the country would have on the distribution of securities from organizations like yours in New York; that is, the combining together of all banks in a certain area would preempt largely the securities business in those localities. Would you view that as a restriction on your ability to sell securities?

Mr. WIGGINS. I do not think so. I think their personal judgment on what is the best to buy governs in the matter of securities purchases.

The CHAIRMAN. You do not think the building up of these big groups would affect the ability of New York banks to sell securities in their territory?

Mr. WIGGINS. I do not think so.

The CHAIRMAN. My attention has been called to a recent sale of Treasury notes. For the first time it appears those notes were successfully bid in by a group; namely, the Marine Midland group of Buffalo, they successfully bidding them in in competition with New York bidders. Have you any fear that they may take unto themselves exclusively the securities business in their trade area?

Mr. WIGGIN. I do not think so.

The CHAIRMAN. In other words, you do not feel, in the management of the securities business—in originating and distributing securities you would lose out selling direct to customers in this particular area but that you would have to do business with the head of such an institution, who would, in turn, distribute the securities to the people in this trade area?

Mr. WIGGIN. I think the distribution of securities is governed by the taste of the individual buyer, and that is governed largely by the return.

The CHAIRMAN. As far as the banks that formed that group are concerned, in the purchase and sale of securities, they would be directed by the head officers of the group?

Mr. WIGGIN. Yes; but in buying any quantity of securities they have to buy in the open market.

The CHAIRMAN. I should like to ask you how many branches you have in New York?

Mr. WIGGIN. Forty-six.

The CHAIRMAN. With respect to the examination of your parent institution, is there a simultaneous examination of these branches?

Mr. WIGGIN. Yes, sir; they count the cash in every place simultaneously. Mr. Pole can answer that question better than I.

Mr. SEIBERLING. Can you tell us what is the average rate of interest you pay on daily balances of your correspondent banks?

Mr. WIGGIN. Two per cent, I think it is now.

The CHAIRMAN. We are very grateful to you for your statement, Mr. Wiggin.

Mr. WIGGIN. I hope I have been of some use to you. I doubt whether I have.

The CHAIRMAN. The committee will stand adjourned until 10.30 to-morrow morning.

(Whereupon, at 12.25 o'clock p. m., the committee adjourned to meet at 10.30 o'clock a. m. Thursday, June 5, 1930.)

BRANCH, CHAIN, AND GROUP BANKING

THURSDAY, JUNE 5, 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. We have before the committee this morning Dr. Benjamin M. Anderson, jr., economist of the Chase National Bank of New York. Mr. Anderson was present yesterday during the testimony of Mr. Albert H. Wiggin, chairman of the governing board of the Chase National Bank. We will be very glad to hear any statement which Mr. Anderson cares to make at this time.

STATEMENT OF BENJAMIN M. ANDERSON, JR., ECONOMIST, CHASE NATIONAL BANK, NEW YORK CITY

The CHAIRMAN. I am presuming, Mr. Anderson, you would like to make a brief statement?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And then submit yourself to questioning later on?

Mr. ANDERSON. Any procedure the committee wishes to follow.

The CHAIRMAN. I think it will be best if you will proceed with your statement and the members of the committee will question you pertaining to anything you may say or to things that are pertinent to this study.

Mr. ANDERSON. My opinions, set forth in the two documents which I am going to submit for the record, are opinions of long standing.

For the record, I want to submit a speech that I made in New Hampshire on October 12, 1929, called Bank Consolidations in a Period of Speculation; and a speech which I made in North Carolina on May 8, 1930, called Branch Banking Throughout Federal Reserve Districts.

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

BANK CONSOLIDATIONS IN A PERIOD OF SPECULATION [1]

(By Benjamin M. Anderson, jr., Ph. D., economist of the Chase National Bank of the City of New York, October 12, 1929)

REVOLUTIONARY CHANGE TO BE AVOIDED

The question of the comparative merits of the European system under which a country has a few great banks with numerous branches, and the American

[1] An address delivered before the joint convention of the Northern Bankers Association and the New Hampshire Bankers Association, at Whitefield, N. H., on the evening of Saturday, Oct. 12, 1929.

system of 26,000 independent unit banks, is not one to be settled offhand. There are countries where country-wide branch banking works admirably; and, by and large, our system of unit banks has worked admirably. Either system can work well if the country is adjusted to it, if the bankers of the country are trained in handling it, if the banking laws of the country are adapted to it, and if the standards of banking and commercial morality in the country are high. Neither system could work well if suddenly adopted in a country which had long been accustomed to the other system. Revolutionary changes in the banking system of a great country are to be avoided. Changes which may be desirable if they come slowly as an evolutionary process, with a careful study of the problems involved, with experimentation and the correction of mistakes in the light of experimentation, may easily be unfortunate if put through wholesale on a country-wide scale. It would be particularly unfortunate if our American system should suddenly be transformed as an incidental by-product of a competition between the State banking system and the National banking system, or as an incident of a period of excited stock market speculation, or as a result of a competitive struggle for great size and large figures.

Branch banking confined to the city of the head office is not the point at issue. We have learned how to do this well in many American cities. The problem before us to-day is one of consolidations running far beyond a single city, and, in many cases, consolidation by means of holding companies, rather than by mergers with branch banking.

We should move slowly in the readjustment of our banking system. It is not enough to study the matter from the standpoint merely of the prices of bank shares or of holding corporation shares. It is not enough to study the matter only from the standpoint of the much more important question of the profits of banking. We must consider the problem also from the standpoint of the services which banks perform for the country.

But, in general, under a competitive system, the prosperity of the banks and the prosperity of the country move together. In general, that banking system which, preserving competition, makes most profits is serving the country best. A prosperous bank, strengthening its capital structure by accumulating a large surplus out of earnings, can serve the country better than a bank which is not making money. In general, a bank prospers as its customers prosper, and under a system of competitive banking a bank makes money with its customers, instead of out of them.

It is, therefore, fair argument for the proponents of a change in our banking system to make the case that the change will increase banking profits. A carefully analyzed consolidation plan which does not destroy competition, which takes adequately into account the problems of management, control, and responsibility, which prices properly the various elements taken into the consolidation, and which definitely accomplishes economies in operation, is thoroughly justifiable. On the other hand, movements toward consolidation in every field are intensified during periods of active speculation in securities and are greatly facilitated by the ease with which new securities can be issued and marketed in such periods. Abuses and mistakes easily occur in such periods, and movements which are economically justified may easily be carried to uneconomic extremes.

MR. WIGGIN'S VIEW

In his annual report as chairman of the board of directors of the Chase National Bank in January, 1927, speaking of the merger of the Chase National Bank with the Mechanics & Metals National Bank, Mr. A. H. Wiggin said:

"This merger, together with similar steps on the part of other institutions in the last two or three years, has been made the occasion of comments to the effect that mergers are the order of the day and that the line of logical development is toward fewer and much bigger banks. I am not prepared to subscribe to this doctrine without qualification, and I would not have our merger with the Mechanics & Metals National Bank judged on that basis alone. It is significant that while bank mergers are taking place new banks of moderate size are also coming into existence and doing well. A merger may bring together organizations which can not work harmoniously and may combine interests which are not compatible. Each case must be judged on its own merits. Haphazard mergers merely for the sake of large figures do not assure good banking. In the case of the merger of the Chase National Bank and the Mechanics & Metals National Bank a great deal of careful thought and planning preceded the decision. The responsible officials of both institutions knew one another well before the merger, and were sure that they could cooperate in a friendly and efficient way. The

merger has been accomplished with entire good will and with a minimum of friction and disturbance.

"It may be observed that the Chase National Bank reached the position of the second largest national bank in the country in volume of net deposits without any mergers at all. Attaining great size through growth alone, it was able to develop a body of traditions, ideals, and practices which give it a distinctive character. The mergers which have since taken place have made it possible for us to give larger lines of credit to great business organizations, have made possible the more economical handling of many functions, and have broadened the range of our activities, but they have not destroyed the distinctive character of the Chase National Bank."

BIGGER CUSTOMERS AND BIGGER BANKS

One of the important considerations making for the consolidation of banks has been the recent great growth in size of American business corporations, customers of the banks. The banks must be big enough to meet the needs of their customers. But this argument can not be applied throughout without careful consideration of the individual case. Just how big do the banks need to be to take care of their customers? Precisely how much have their customers grown? An answer can not be given for the country at large. It must rest on a study of individual cases, and individual communities and regions.

Undoubtedly unit banking has been carried to uneconomic extremes in a good many rural regions. Undoubtedly there are too many small banks struggling along with such small earnings that they can not pay the salaries required for adequately trained bankers. Undoubtedly many rural communities would be better served by fewer and bigger banks. Undoubtedly, too, the development of the automobile and hard roads has made unnecessary the existence of a good many very small banks which formerly were quite necessary for a local community.

THE HOLDING COMPANY IN STRICKEN RURAL REGIONS

Further, there are great regions where, as a consequence of the unfortunate position of agriculture since 1920, so many small banks have gone under that public confidence in banks has been undermined. A well managed holding company, organized by powerful city banks, owning the stock of rural banks in such a region, may restore the impaired prestige of the country banks, lead their local customers to trust them fully and use them freely and build up their deposits once more, and restore sound credit to a distressed agricultural region. But the problem is not one for sweeping generalization. It is a problem that requires the careful study of individual cases.

HOLDING COMPANIES VERSUS MERGERS

I think that the propositions involved in Mr. Wiggin's discussion of mergers apply with even greater force to chain banking and bank holding companies. The merger, with branch banking, is a much more satisfactory form of consolidation from the standpoint of the problems of personnel and control and the centering of responsibility, than holding companies and chains of banks. The latter forms of consolidation, however, are often possible where merger with branch banking is impossible for legal reasons, and it is this less satisfactory form of consolidation that is being most widely employed of late, the supposition being in many cases that it is in anticipation of a change in the law which will make real mergers, with branch banking, possible at a later data. A real question arises as to the desirability of putting American banking into a halfway house awaiting a change in the law which may not come.

THE ARGUMENT FROM BANK FAILURES

One of the most used arguments offered for consolidation movements in rural regions is the large number of failures of rural banks since the crisis of 1920. A good many rural banks have gone under simply because the local community as a whole went under in the great collapse of land values and agricultural commodity prices. The figures were swollen, moreover, by the failure of a large number of very inadequately capitalized banks, the laws of certain States permitting banks to be organized with a capital of $10,000 in small places. There is need for reform in the banking laws to make sure that all banks have adequate capital, and that all banks are large enough so that they can afford to employ men with real banking training.

Commenting on these failures, Mr. Rudolph S. Hecht, president of the Hibernia Bank & Trust Co. of New Orleans, very properly remarks:

"However, neither chain nor branch banking is necessarily a panacea for such conditions. Overexpansion and frozen credits can occur under one system as well as another. This is best illustrated by the fact that within the same period covered by the above statistics we had failures such as the Bankers Trust Co. chain of Atlanta, which a few years ago caused 83 apparently independent banks in two States to close their doors within 48 hours, the failure of the Home Bank of Canada with 78 branches, and the practical failure and forced absorption of the Merchants Bank of Canada with 400 branches."

To Mr. Hecht's American and Canadian illustrations it would be easy to add illustrations from Europe, including the failure of a great bank with branches in Denmark (mitigated by the action of the Danish Government in guaranteeing its future obligations and continuing its activities), and the very disastrous collapse of the Banca di Sconto in Italy, with its numerous branches scattered throughout that country. We have seen also the failure of the great Banque Industrielle de Chine in China, and of several great banks with numerous branches in Japan, the latter mitigated by the Government's powerful aid. I agree thoroughly with Mr. Hecht's further proposition that:

"After all, good banking is not a matter of size. A properly conducted small country bank can be as safe as a large city institution with many branches. Success in the banking field depends on good management, whether the unit be large or small. It can not be denied, of course, that larger institutions can and usually do employ more capable men with greater experience and sounder judgment than can the average small unit bank. They also have on the whole better facilities for standardizing their business, keeping themselves properly informed, and thus escaping many losses resulting from actual operations as well as from poor credits.

"However, we have reached a point in our profession where most of the deficiencies of the small town bankers can be supplied, not necessarily by making any fundamental changes in our banking system or by giving up any of the unit bankers' independence, but merely by bringing about a better spirit of cooperation and mutual helpfulness."

BRANCH BANKING VERSUS CORRESPONDENT RELATIONS

A central point in this cooperation and mutual helpfulness to which Mr. Hecht refers is, of course, the relations between the small banks in interior places and their great city correspondent banks. The small bank can not afford a great credit department, but from its city correspondent it can and does get abundant and adequate credit information. The small bank may not trust its own judgment in the purchase of securities, but the full resources of its city correspondent are at its disposal in this connection. Through its city correspondent it can and does diversify its assets, purchasing safe open market commercial paper or bankers acceptances or obtaining other liquid assets.

One of the supposed advantages of country-wide branch banking is the facility with which funds can flow from regions where they are excessive to regions where they are needed. The head office, finding funds piling up in excess of local need in one part of the country, can transfer them to other parts of the country where borrowing demand is heavy. But it is an old story in American banking that precisely this same flow of funds takes place through our system of correspondent banking. Rural banks send excess funds to the money centers during their dull seasons, and during the period of their peak need for funds they borrow in the money centers.

BRANCH BANKING AND LOCAL INTERESTS

One difference, however, between the foreign practice of country-wide branch banking and the American system of unit banking is that the decision as to when and where funds shall flow is not made merely in the head office in the financial center, but rather is a matter of negotiation between principals in which an authoritative voice speaks for the interests of the local community. Very much is to be said for the argument of the country banker in opposition to the consolidation movement that he, the man on the ground, with his heart and his interests in the local community, can consider the interests of the local community more zealously and more expertly than a branch of an institution with headquarters in a distant great city could do. This is not always true. The local branch might be manned by abler bankers than those who man the inde-

pendent local bank. A capable branch manager might persuade the head office to send larger funds than the head office would lend to the local independent bank.

The experience of various foreign countries with respect to this matter gives us no universal answer to the question of how well branch banking serves local communities. In some cases country-wide branch banking has drawn in funds from the Provinces to be employed primarily in the financial center, or to be used in making foreign loans. In other countries country-wide branch banking has increased the funds at the disposal of the local communities. But the desire for local independence in financial matters is one that appeals strongly to the American public, and the desire to be the head of an independent bank is one cherished by many thousands of American bankers. It is not certain that the banking profession would draw to itself as high a percentage of our capable men as it now does if we made a revolutionary change in our system.

THE AMERICAN SYSTEM OF DIFFUSION OF RISKS

One further point with respect to the difference between American and foreign systems is to be considered in connection with the question of how big American banks need to be to take adequate care of American businesses. The American system of commercial banking emphasizes the diffusion of risks. Commercial loans, including loans to manufacturers, are normally short loans, and "lines of credit" are normally reviewed once a year. It is a general practice, moreover, for businesses of any size to carry accounts with several banks and even with banks in several cities, and to have lines of credit and borrowing relations with several banks. This makes for diffusion of risks, and for greater liquidity of banks assets. It makes business freer from bank domination, and banks freer from business domination. The tendency in foreign countries, on the other hand, where a few large banks with branches control the banking field, is for most businesses, excluding sometimes the very largest, to have only one bank, and for the bank and the business to be tied together very closely. The business is not independent of the bank and very often the bank is not independent of the business. The American banking practice of "cleaning up once a year," under which the borrower is expected to be out of debt to each bank for at least a part of the time, does not obtain to anything like the same extent in these foreign countries. The bank very often can not be paid in full without bringing the business to a close. Is it desired by those who urge that banks must be very much larger in order to take adequate care of their customers, that we shall abandon the American practice of short loans and diffusion of risks and go over to the practice of each business dealing only with one bank? The matter merits consideration before a decision is made.

BANKING CONCENTRATION AND ECONOMIC FLEXIBILITY

There is a further related point upon which my own mind is quite clear. It is definitely not desirable that consolidations should go so far in the United States as to make it possible for concerted action by the banks to stop a necessary liquidation and to carry over stale positions for protracted periods. In the crisis of 1920–21, our many thousands of independent banks, by cooperative effort and by resort to the aid of the Federal reserve banks, were able to prevent the crisis from degenerating into a panic, and were able to go through the liquidation in an orderly manner. But they were quite unable to prevent the necessary liquidation. In a surprisingly short time we "cleaned up" the weak spots, readjusted prices and costs, absorbed our losses, brought liabilities into reasonable relation to assets, and got ready for the next upward move in business. The business tide turned in the third quarter of 1921, and the year 1922 was a year of strong recovery. In Japan, on the other hand, concerted action by a few great banks, a few great industries, and the Japanese Government, choked off the crisis and the liquidation early in 1920, and the stale position, unliquidated, was carried over, despite a partial liquidation at the time of the earthquake in 1923, until the great crisis in 1927, when some great banks went under. Japan endured seven years of business stagnation in the vain effort to avert losses which our system of banking compelled us to take in 1920 and 1921. And Japan is not the only country where banking concentration has unduly delayed necessary liquidation. When many thousands of independent banks must independently meet their obligations at the clearing house every day, it is impossible to carry economic mistakes anything like so far as is possible when only a few great banks dominate

the picture. In the interest of the flexibility of our economic life, we must preserve vigorous competition both in banking and in business, and we must have a large number of independent units in order to assure this.

In conclusion, it has not been my purpose in this discussion to arrive at a definite verdict as to what is desirable in the future of American banking. It is my purpose rather to urge that the matter be not hastily settled. Each individual case must be studied on its merits. The distinction must be made between consolidations which are called for by the technical banking situation, and those that occur because it happens to be "the fashion of the day," or because it is easy to market new securities in a period of speculation. Obviously, too, the character and the caliber of the men who are making the consolidations are of crucial importance, and in this connection it is important to remember that the brilliant, able, and upright promoter is not necessarily a capable administrator.

Branch Banking Throughout Federal Reserve Districts [1]

(By Benjamin M. Anderson, jr., Ph.D., economist of The Chase National Bank of the city of New York, May 8, 1930)

A REVOLUTIONARY PROPOSAL

The Committee on Banking and Currency of the House of Representatives at Washington has been holding a highly important set of hearings on the subject of group, chain, and branch banking. It is giving very special consideration to a proposal that the national bank act be amended so that national banks may have the power to extend branches throughout "trade areas" which may overlap State lines, which may be as wide as Federal reserve districts, and which may even overlap Federal reserve districts in cases where a city's "trade area" runs beyond a Federal reserve district. National banks, under this plan, would be empowered to do this whether the States consent or not. National banks located in one State could invade another State whose laws prohibit branches of banks chartered elsewhere. The primary purpose of this proposal is to arrest the failures among small banks in country districts. A secondary purpose is to give the national bank charter such an advantage over State bank charters that the national banking system will grow at the expense of State banking systems. The theory of "parity" between State and national banks is definitely abandoned, and the purpose is to give national banks a definite and great advantage over State banks.

The main emphasis is placed upon the arrest of bank failures. During the 9-year period June 30, 1920, to July 1, 1929, about 5,000 banks, nearly all of them in agricultural communities, closed their doors and tied up deposits of approximately $1,500,000,000. (The average of deposits is thus very small for these failed banks, being only $300,000.) The figures for the year 1929 show no decline in the rate of failures among these small banks.

The proponents of this widespread extension of branch banking outside the city of the head office apparently intend to make use of the recent rapid developments of group and chain banking, by adopting legislation to permit the groups and chains to transform themselves into branch systems.

With much sympathy for the main purpose which lies behind these proposals, sincere proposals made by able men who undoubtedly have the good of the country bank at heart and who undoubtedly have a great deal of knowledge of country bank conditions, I am, none the less, obliged to disagree radically both as to their diagnosis and as to their prescription. The causes of the failures of small country banks are to be found in special circumstances which have little to do with the general question of chain, group, and branch banking versus unit banking. And the remedy proposed would touch nelp very few of the existing country banks which are in a weakend condition.

We do not need to make a revolution in the general banking system of the United States because of conditions in small banks in stricken agricultural regions. Other, much more moderate, proposals may be made which would be much more effective from the standpoint of the goal aimed at.

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[1] An address delivered before the North Carolina Bankers' Association at Pinehurst, N. C., on the morning of Thursday, May 8, 1930.

THE EXISTING CHAIN, GROUP, AND BRANCH BANKING MOVEMENT LEAVES OUT THE SMALL BANK

At the end of 1929 there were in the United States 24,645 banks and 3,547 branches, or a total of 28,192 banking offices. Of this total of banking offices there were 6,353 banks and branches that belonged to branch banking systems and chain or group banking systems or to both. This leaves 21,839 banking institutions that are definitely "independent unit banks." The overwhelming number of our banks is thus outside of chain-bank, group-bank or branch-bank systems. On the other hand, on the same date, the branch, chain, and group banking systems had total loans and investments of approximately $30,000,000-000, leaving $28,500,000,000 of loans and investments for the 22,000 independent unit banks.

This figure, $30,000,000,000, however, gives a very exaggerated picture of the extent to which the movement has gone. From the standpoint of the question in hand, we may take out the many billions represented by the great New York banks whose branches are all within the city of New York or else in foreign countries, and the bulk of whose loans and investments are in any case not in branches but in the head offices. A similar reduction can be made for a number of other important cities. Of the banks that belong to chains or groups, but operate no branches, there were on this date 1,984, with total loans and investments of $4,913,000,000, the average of loans and investments being about $2,500,000. In addition there were 119 banks, belonging to chains or groups, that operate branches, with total loans and investments of $6,264,000,000, or an average of $52,600,000 per bank.

These figures show the immense disparity in average size between the banks that have gone into chains and groups, and the small country banks that have been failing, with average deposits of $300,000. The existing chain and group bank movement is primarily a movement which is bringing relatively large banks together. In exceptional cases, it is including some of the small banks which the legislative proposals are designed to help. Even in these cases, it is not taking in those that are weak and failing. I should not know how to draw a constitutional legislative proposal which would compel good bankers to absorb weak and failing banks. Further, from the standpoint of what is administratively possible, the managers of a great group-bank system can contemplate with some equanimity the absorption of $60,000,000 of banking resources in a dozen well organized banks in sizeable cities, when they would very properly shrink from the task of taking over sixty millions of banking resources scattered among 200 banks in very small towns.

THE SIZE OF THE FAILED BANKS

Over 40 per cent of the failed banks were situated in towns and villages having a population of less than 500 persons. Over 60 per cent were in towns of 1,000 people or less; 80 per cent were in towns of 2,500 people or less; 92 per cent of the failures were in places having less than 10,000 people. Of the remaining 8 per cent of the failures, a high percentage was in very small banks in larger places.

From the standpoint of capitalization, 63 per cent of the failure were among banks having $25,000 capital or less; 71 per cent were in banks having less than $50,000 capital, and 88 per cent among banks having less than $100,000 capital.

During the past nine years there were no failures at all of banks having capital of two millions or more, and there were only four failure among banks having over one million capital.[2]

Practically, it may be said that for cities of 10,000 or more people, and that for banks with $100,000 capital or more, there has been no problem of sufficient magnitude to justify extraordinary concern, or to call for more than local attention.

Certainly there is nothing in the experience of the past nine years, as revealed in the foregoing figures, to justify a legislative revolution in our banking situation, or to justify the creation of giant branch-banking systems, with enormous capital, ranging over "trade areas" which may equal or even exceed Federal reserve districts in size. Much more moderate measures would apparently be indicated.

THE CAUSES OF BANK FAILURES IN THE PAST NINE YEARS

The first and foremost cause of the large number of bank failures since 1920 is the great boom in agricultural prices and land values before 1920, the collapse

[2] Branch, Chain and Group Banking, hearings before the Committee on Banking and Currency, H. R., 1930, Vol. 1, pt. 1, pp. 11–12.

of agricultural prices and land values following 1920, and the adverse conditions in agricultural communities which have since continued. The second great cause is real estate speculation in the period since 1920, in certain important sections of the country, notably Florida and some adjacent States.

This is strikingly evidenced by the geographical distribution of the failures, which are largely centered in four Southeastern States, namely, Florida (123 failures), Georgia (305 failures), South Carolina (191 failures), North Carolina (110 failures), and in a second group of agricultural States, namely, Minnesota (378 failures), Iowa (467 failures), Missouri (246 failures), North Dakota (444 failures), South Dakota (315 failures), Nebraska (307 failures), Kansas (194 failures), Montana (191 failures), Oklahoma (227 failures,) Texas (217 failures).

During this same period, all of New England had only 26 failures. New York had only 12 failures, and Ohio had only 36. New Jersey had none at all. The failures were concentrated, in other words, in the regions which had been most affected by the agricultural boom and collapse, and by the real-estate speculation in Florida and adjacent States. This concentration of the problem in special areas again would raise the question as to whether Federal legislation, affecting banks all over the country, is called for, or whether—in so far as the matter calls for banking legislation at all—it is not a matter for the States most concerned, with such concurrent legislation on the part of the Federal Government as would permit national banks to have the same branch-banking rights that State institutions have in these States.

From the standpoint of the contrast between our unit-banking system and the system of branch banking, it may be observed that the same grave sequence of events, namely, the war, the boom of 1919–20 and the collapse of 1920–21, which undetermined so many of our small agricultural banks, also undermined great branch-banking systems in many parts of the world. These include a great bank in Denmark, a great bank in Canada with 400 branches, the Banque Industrielle de Chine in China, with its widespread branches and its power of note issue, and the Banca di Sconto in Italy, with branches spread all over that country. More recent troubles of the same sort, deferred consequences of the same causes, have occurred in Japan and Austria. An incomplete record shows, also, for the United States, that 226 banks, with deposits of $102,000,000, belonging to chain systems, failed during the period we are considering.[3] And it is further to be observed that in all these American agricultural States the great bulk of the unit banks, measured in resources, survived the shock, and that in every State the majority of the unit banks in number stood intact.

The situation was very greatly aggravated in many of these States by the excessive number of very small banks. "No community can possibly provide adequate resources, competent officers, and experienced directors for one bank to every 750 of its inhabitants as in North Dakota, or to 1,400 as in Iowa. And the situation in these States was not exceptional; on the contrary, an excessive number of banks have been established throughout those sections of the country that are mainly devoted to agriculture." [4]

New Jersey's total immunity from bank failures in the past nine years is probably due in part to the fact that New Jersey's banking authorities are not over-ready to grant charters to new banks, unless there is real evidence that a new bank is needed, and that the Federal Comptroller is influenced by the State policy when granting national bank charters in that State.

The situation was complicated further for many small country banks by the withdrawal of an important source of revenue which they had formerly enjoyed, namely, the making of exchange charges on checks drawn against them for which remittance was expected in another place. Their checks, when presented over their counters, they paid at par. But when they were expected to make remittance to other places, they very generally made a liberal (and often excessive) "exchange charge," which was an important source of revenue. The Federal reserve system of par collection of checks has largely wiped out this source of revenue for very small banks.

Again, the institutions chartered by the Federal Government for making mortgage loans reduced an important source of revenue which many of these small banks had, in acting as intermediary in the making of mortgage loans.

At the same time these Federal farm loan agencies brought into the agricultural communities an unaccustomed volume of funds which were deposited with the local banks at high rates of interest, and which the local banker felt obliged to

[3] Hearings, Vol. I, pt. 4, p. 457.
[4] Recent Economic Changes, Vol. II, p. 695.

reemploy at high rates of interest. Many a small-town banker, who was a good banker when his loanable resources were somewhat less than the borrowing demands of his good customers, and who could make good loans when he could discriminate among competing borrowers, found himself to be a very poor banker when he faced the unaccustomed problem of employing surplus funds. He was not trained for that.

It may be added that the well-meant efforts of the Federal Government to improve the condition of agriculture by multiplying the facilities of agricultural credit have had as their main result a great and excessive increase in the mortgage debt of agriculture, without a commensurate increase in the productiveness of agriculture, and with a consequent narrowing of the margin of free income and the percentage margin of equity in land, on the basis of which the farmer could ask his banker for credit.

Very especially has the position of the very small bank in villages been weakened by the coming of hard roads and automobiles, which, in many places, have largely destroyed the usefulness of the small local village, doing away with the local merchant, the local mill, and the local church, as well as the local banker, making it possible for the people to do their business and seek their social life in the county seat and nearby larger cities. Industrial consolidations, moreover, even where leaving local factories in small places, have very often taken away the banking business which the local factory gave to the local banker, and concentrated it in larger places. The growth of chain stores has had a similar effect. The very small bank has had a difficult time in recent years, and the marvelous thing is, not that so many have gone under, but rather that such an enormous number have stood, and have even prospered, despite these adverse tendencies.

DIVERSIFICATION OF RESOURCES THROUGH CORRESPONDENT BANKS

One cause assigned for the failures of many small banks is that they have been unable to diversify their resources because located in a 1-crop district, whereas a great bank with branches stretching over a whole Federal-reserve district could accomplish this diversification. It is true that many small banks have failed through lack of diversification of their resources, but it is also true that the majority of small banks in the same communities have survived because they have diversified their resources. They have accomplished this diversification by means of their correspondent relations with great banks in great cities. They have refrained from putting all of their resources into local loans, and have placed part of them, through their correspondent bank, into open market commercial paper, or readily marketable bonds, or call loans on the stock exchange, or acceptances, and deposit balances with their correspondent bank to build up a "borrowing equity." When times of stress have come, they have thus had secondary reserves, and they have been able to borrow from their correspondent banks sums needed to tide them over seasonal needs and emergencies. Good banking and diversification of banking resources is perfectly possible for a small bank in a 1-crop community. We do not need branch banking either for the purpose of securing diversification or for the purpose of bringing about a seasonal flow of funds from region to region. The system of correspondent banking relations has accomplished this for many decades, and good bankers everywhere know how to do it.

THE REMEDIES

I see nothing in all of this to call for a radical change in Federal laws regarding branch banking. The problems do not extend throughout the United States. They are centered in particular States. The problems do not relate to institutions of sufficient size to be beyond the power of each State to deal with for itself.

Radical changes in the banking legislation of a good many States are undoubtedly indicated. The minimum capital required for banking in many States is far too small. There ought to be sweeping consolidation movements among the smallest banks in many States. Many villages which now have two or three struggling banks would be much better served by one strong bank State legislation giving the State banking authorities power to guide, and even to compel this in their discretion, would be very desirable in certain States.

A limited extension of branch banking by State law would probably help the situation in a good many States. The national bank act should be amended so as to permit National banks to do in this connection what the different States allow their State banks to do.

County-wide branch banking, branch banking in groups of counties, even, in some cases, State-wide branch banking, or branch banking centering about three or four main cities of the State, ought, in certain States, to be permitted and encouraged. There may even be one or two cases where a State will feel itself so much in need of outside banking capital that it will welcome the branches of powerful banks whose head offices are in other States.

Mr. Platt, of the Federal Reserve Board, has made moderate proposals along the line of county-wide branch banking, having especially in mind the very small country banks, which deserve very careful study. Ambassador Charles G. Dawes, when Comptroller of the Currency, in his annual report for the year 1898, recommended that branch banking be authorized in communities of less than two thousand inhabitants, since many of such communities were not able to support independent banks. Many such villages would undoubtedly be better served by inexpensive offices of strong banks, whose head offices are in nearby county seats than they are by their local independent unit banks which are not making profits and which must charge very high rates for the limited local loans they are able to make.

It is probable that legislation along this line, authorizing banks in larger cities to establish branches in outside communities with ten thousand or less inhabitants, or even with five thousand or less, would accomplish virtually everything, with respect to the prevention of small bank failures, that branch banking could in any case accomplish. At the same time it would avoid the grave evils that would come from the sudden revolution in our general banking system, and from the destruction of local financial independence, that the larger program now under consideration would involve.

Further, such a limitation would concentrate upon the communities most in need of help the attention of the bankers who are in favor of such developments, but who would be hunting bigger game in larger cities if the whole field were thrown open. Such legislation ought to be drawn in such terms as will encourage the organizers of branch-bank systems to take over the existing banks, and to discourage the starting of new branch offices in places where such action would merely increase the difficulties of existing small banks. Permission to establish such new branches, competing with existing banks, ought not to be automatic, but should involve some "certificate of convenience and necessity," to be issued by the authorities only after hearings.

But the problem differs greatly in different States. The different State bankers' associations should take it up and they should carry their proposed legislation to their State capitals, rather than to Washington. The one piece of legislation needed at Washington would seem to be that the national banks be allowed to have branches in a given State on the same terms that the State banks and trust companies in that State are allowed to have them.

STATE LINES AND LOCAL FINANCIAL INDEPENDENCE

We are moving much too fast and too far in the direction of centralization. If an evil arises, we rush to Washington for a remedy which, even if a good remedy for part of the country, is often ill adapted to the special needs of other parts of the country, and which, if a bad remedy, makes another nationwide evil. It is far better that we should use the machinery of our 48 States for social and economic experiments. If they work well, other States may adopt them. If they work well in part, other States may modify them in adopting them. If the new measures are good for some States and bad for others, those that find them good may use them. If the remedies are definitely bad, as guaranty of bank deposits proved to be, we develop the fact by a relatively small scale experiment, and the country as a whole is saved. There is, for example, little danger of Federal legislation for the guaranty of bank deposits, but I should not feel so sure of this if experience in Oklahoma and Nebraska and elsewhere had not already given us an object lesson upon the point.

I should strongly oppose Federal legislation which would force upon a State which was unwilling to accept it the branch-bank system, and, above all, Federal legislation which would compel a State to admit the branch of a bank chartered in another State against its will and against its laws. Specialiats in every field, eager to bring about widespread adoption of their remedies and reforms, are continually going to Congress to secure congressional legislation covering matters which are properly matters of State concern. Congress is continually giving attention to matters which ought to be handled piecemeal among the 48 States. Congress is overburdened with measures of this kind, and Washington has grown topheavy with bureaus for administering such legislation.

We need the States. They are a vital part of our political machinery. And we must be content to see them make mistakes occasionally, as part of the price which we must pay for a proper balance between centralization and local self-government. If the choice were between an infallible Congress and fallible State legislatures, the issue might not be so clear, but Congress can also make mistakes, and such mistakes are more serious than those made in a single State. The banker is not merely a banker. He is also, and first of all, a citizen. As a citizen, he may be permitted to attach a higher importance to the preservation of the fundamentals of our Federal system of government than to technical points in banking legislation.

LOCAL INDEPENDENCE AND CORRESPONDENT RELATIONS

I believe in the general system of local financial independence. I am opposed to having the bankers of one city dominate the banking of another city. I believe that this country ought to have in every city several strong, independent financial institutions interested in the local community, and dealing as principals with the banks of other cities, rather than acting merely as their agents. I believe that our system of correspondent banks gives us, in general, all the financial interdependence that we need, and that the services which the correspondent bank in a great city performs for the banker in a smaller place make it unnecessary for him to have the elaborate facilities which a great bank has. The unit-banking system has gone to extremes with us in many States. There are too many very small banks. But correcting this excess of the system will leave our American banking system, I believe, far better adapted to our needs than the European system of a few great banks with a multitude of branches, with all power centered in a few great financial centers.[5]

PARITY OF STATE AND NATIONAL BANKS

I can not sympathize with the view that it is necessary to pass unsound legislation for the purpose of giving such supremacy to the national banking system over the State banking systems that banks would be compelled to drop their State charters and take out national charters. It is now well demonstrated that the Federal reserve system does not depend for its success and growth upon the growth of the national banking system. Virtually all of the great State banks are members of the Federal reserve system. Seventy-five per cent of the commercial banks of the country, measured in volume of loans and investments, are members of the Federal reserve system. The Federal reserve system can at any time dominate the money market, which is dependent on Federal reserve credit for a high percentage of its cash reserves. Through the Federal reserve system, Federal supervision extends to the great bulk of the banking resources of the country at present.

The original purpose of the national banking system was to supply a uniform bank note issue throughout the country, and to make a market for the Civil War Government bond issues. With the Federal reserve act and the Federal reserve note, the national bank note has become a matter of relatively minor importance. There is no need for artificial support of the Government bond market. The national banking system is important, and it is desirable to maintain it. It has helped set good banking standards throughout the country. The Federal comptroller's supervision and inspection of banks is better than State supervision and inspection of banks in many States—not in all. But the State banking systems are also good systems, by and large. It is thoroughly undesirable that great issues of banking policy should be settled as a mere incident to a competition between the State and national banking systems.

A GRAVE PRACTICAL DANGER

The adoption of the proposed Federal legislation authorizing national banks to establish branches throughout great "trade areas" which may be as wide as Federal reserve districts or even, in certain cases, wider, would be like the firing of the starter's pistol at a race. It would initiate one of the fiercest competitive struggles the country has ever seen among the powerful banks in each of the districts for supremacy throughout the district. Many hasty and ill considered consolidations would be put through. Efficiency would suffer. A great readjustment in the relations of banks and businesses would be necessary. It would

[5] The Chase Economic Bulletin, Vol. IX, No. 5, Bank Consolidations in a Period of Speculation, discusses the comparative merits of the American and European systems.

mean competitive bidding for the stocks of the banks which would be absorbed into the great branch-bank systems. It would mean an orgy of speculation in bank stocks. It would bring into play the vigorous activity of promoters, not necessarily bankers or men with capacity in bank administration, who would buy up or obtain options upon large numbers of banks with a view to selling them to the competing great banks.

Those of us who believe that the primary business of a banker is banking rather than bank-stock jobbing would not welcome a situation of this sort. Within recent months a great many conservative bankers have been saying that they would dislike very much a competition of this sort, that they hope it will not be forced upon them, but that if it is forced upon them, they will, of course, act to protect their positions. I should think that legislative restraint, rather than legislative encouragement, would be called for by tendencies like these.

Mr. ANDERSON. Let me say that I speak as an individual citizen and as a professional economist. What I say will have no reference to what Mr. Wiggin said yesterday. I had just a word with him before he left. I asked him if he had any suggestions to make regarding my testimony to-day, knowing very well what he would say, and what he said was, "Simply tell them what you think without any reference to what I said."

In 1918 I was asked, while I was still a professor at Harvard University, by the Carnegie Endowment for International Peace, to make a study of the effects of the war on money, credit and banking, in France and the United States; a study published by the Carnegie Endowment for International Peace in 1919, The Effects of the War on Money, Credit and Banking in France and the United States.

In that book, written 12 years ago and published 11 years ago, based on my study of branch banking in France primarily, I expressed the same opinions regarding the undesirability of branch banking in this country that I shall express before you to-day.

Mr. GOLDSBOROUGH. That was before you were connected with any New York financial institution?

Mr. ANDERSON. It was written before I was connected with a New York financial institution. I went to the National Bank of Commerce in the autumn of 1918. The preface to the book, when I turned the manuscript over to the Carnegie Endowment, was dated November, 1918, shortly after I went to the Bank of Commerce, but the bank had nothing to do with it. The book was not published until 1919. The Carnegie Endowment was slow in publishing. I am sorry I have not a copy of that book here. It is out of print and I have only my personal copy. It will be in the Library of Congress and the Carnegie Endowment library in the city and will be available to the committee.

The CHAIRMAN. Would you care to make any reference to it, just briefly?

Mr. ANDERSON. I want to say some things about foreign branch banking, because I have had occasion to study branch banking in a number of foreign countries, without finding any foreign branch banking system that I want to recommend to the United States. There are many good systems, many systems well adapted to the foreign countries. Almost any system will work well if your bankers are used to it, if the laws of the land are adjusted to it, if your bankers are able men, and business habits are adjusted to it.

No system is going to work well if you suddenly transplant it from one place to another. Banking is a part of the organic life of the community and it has got to fit the rest of the scheme.

I want to speak about several possibilities. In France before the war, branch banking meant very largely that the branch offices out-

side of Paris were bond houses, collecting the deposits of people and then when the deposits got up to rather a good size, the central office would put out a bond issue or a security issue and the people would take those. They lent very little to the local communities. They collected funds from local communities for the purchase of securities.

The situation has changed a good deal in France since the war. Many of the statements made in this study would not be true of France to-day. The securities that they sold then were not very good securities as it turned out; Russian loans, Bulgarian loans, Turkish loans. Quite a tragedy for France came out of that.

Branch banking can work that way; instead of putting money into the local communities, it can take it out.

In Canada they tell me it works the other way, and that the maritime provinces, the eastern provinces complain that too much money is taken away from the east to put into the west. There is no general rule about it.

But the assumption that branch banking will bring more money to the local community is not borne out by the facts of foreign branch banking. It has done so and it has not done so.

Now, I want to say something about another problem that grows out of branch banking away from the head office, away from the city of the head office, or branch banking systems in general.

How are you going to adapt the banking facilities to the needs of the community?

Mr. GOLDSBOROUGH. Before you go into that, have you any information you can give us of how it works in England?

Mr. ANDERSON. I am coming to that with reference to this point.

Mr. GOLDSBOROUGH. I beg your pardon.

Mr. ANDERSON. How are you going to adapt the number of offices, the number of paying tellers' windows, and so forth, the facilities, to the needs of the community?

When the thing is done locally it is at least locally studied and decisions made locally. Sometimes they overdo it. They have overdone it in North Dakota and they have overdone it in Iowa and a great many rural communities in this country; too many little banks where fewer and bigger banks would have been more useful and would have survived. But I think we have done it better in this country, judging it from an American angle, than many foreign countries have done it.

In Holland there was, in 1919–20, competition between two great banking institutions that filled the villages with branches, unprofitable branches. They had to pull up, close them out, in a good many cases.

Here is the picture in England. In London, you go about the streets; there is a bank office on every corner, almost. You go into a branch. You are often the only man there, the only customer there. You go in to cash a check under a letter of credit and the officer of the bank has got lots of time to talk to you. He is glad to see you. He is a little bored. I do not mean that that is true of all of them, but of a lot of them. I think they have too many there. I think it is not profitable. I think it involves needless overhead.

What about it in the provinces? I will give you some illustrations in the provinces.

For your records, Mr. Chairman, I will give you an unsatisfactory document as to form, but fairly satisfactory as to the information. Having to prepare this in great haste, I simply had sheets torn out of the British Bankers Almanac and Year Book (published by Thomas Skinner & Co., London), giving the locations of the banks throughout Great Britain and Ireland. Then I had some clerks get me the populations of the cities and towns as far as possible. They worked rapidly and their population figures may not be exactly right in some places. The population figures are written on the margin and in pencil.

I have not gone through it all myself, but here are some samples. Abbots Langley, a town of 3,400 people. Here are the complete banking accommodations of Abbots Langley: Barclays Bank, (Ltd.), open on Thursday, Lloyds Bank (Ltd.), open on Thursday. There are the banking accommodations of this town of 3,400 people.

Mr. STRONG. Open one day in the week?

Mr. ANDERSON. One day in the week; yes, sir.

Mr. STRONG. If anybody wants to do any business with the bank on any other day, he finds on the door, "We have gone fishing."

Mr. ANDERSON. They have not gone fishing.

Mr. STRONG. But there are no accommodations?

Mr. ANDERSON. They have gone to another town. There is a crew of bankers. They work six days in the week; sometimes in one town, sometimes in another town.

Mr. STRONG. They go around from one town to the other?

Mr. ANDERSON. Yes, sir.

Mr. STRONG. If a man wants banking accommodations, he waits until they get back?

Mr. ANDERSON. Yes.

Mr. STRONG. Fine!

Mr. ANDERSON. Almondsbury; this is in Gloucester. Twenty-two hundred people. The National Provincial Bank is open on Friday.

Abertillery, 22,000 people. That is what the figures on my margin show and I raise a question as to whether that figure is right, because it looks incredible. I should like to have your committee, if you are interested in this, have an independent check made of these population figures. They were hastily got by clerks, working under time pressure. [A later checking with Hammond's World Atlas shows the population of Abertillery to be 38,805. It is in Monmouthshire, England, near the border of Wales.]

Mr. SIEBERLING. I would like to have you give us the proximity to larger towns where they can get banking facilities all the time.

Mr. ANDERSON. I regret I can not.

Mr. SEIBERLING. You can see that is important.

Mr. ANDERSON. It is, and if I had had time, I would do it.

Barclays, Lloyds, Midland, and National Provincial, open on Monday.

Mr. STRONG. In a a town of 22,000?

Mr. ANDERSON. I say, the thing is so startling, I want you to make an independent check of the population figures there.

Mr. STRONG. If it were 2,200, it would be an outrage.

Mr. ANDERSON. Acworth, 3,400, two branches of Barclay's Bank and one of the Midland Bank, Tuesday and Friday.

You can see I have not gone through the "A's" yet.

Acomb, 2,800; Barclay's Bank, Midland Bank, Tuesday and Saturday.

Anstrey, 2,600 people; National Provincial and Westminster Banks, Monday, Wednesday, and Friday. It has good facilities, three days a week.

Arlesey, 2,300 people; Barclays on Thursday.

Bradninch, 2,000 people; Lloyds on Thursday, Midland on Thursday.

Here is an Irish town, Carrick Fergus, 4,208 people; Tuesdays and fair days, the Belfast Banking Co.

Chalford, 2,980 people; Lloyds on Thursday.

Chasetown, 5,188; Midland on Tuesday, Thursday, and Saturday.

I have just gone down through my "C's." I will not go through the alphabet with you.

Mr. STRONG. That will be in the record?

Mr. ANDERSON. Here is the alphabetical list, which I have already submitted for the record, with the towns of England, Ireland, and Scotland, with the population indicated in some cases.

Before I leave that, let me say another thing. Here are some very little places that have something. Here is Allonby, 450; the Midland Bank (Ltd.), Tuesday, October to June, and Tuesday and Thursday, July to September.

There are some very small ones that have something that probably would not have anything if it were not for the branch banking system. I think we may learn something from that.

I think that branch banking perhaps centered about a county seat, with little offices in small places that could not afford independent banks, is worth studying.

Mr. STRONG. But the main benefit there would be those little window stations, to collect the accumulations of the people and take them to the main bank. They could not do much of any other kind of banking business for the people.

Mr. ANDERSON. They make loans there.

Mr. STRONG. But a man who wanted to make a loan would have to wait until the next week or the next season.

Mr. ANDERSON. Well, an Englishman can do that. An Englishman works methodically and looks ahead and plans a long time and probably talks over the question whether he wants that loan, for a month before he applies for it. Our rapid-fire methods they do not use.

Mr. STRONG. Anybody in this country who wants to borrow money for a specific purpose does not want to wait until next week or next month to know whether or not he can get the accommodation.

Mr. ANDERSON. I do not question the goodness of this system for England. I ask you if you want it here; that is all.

In Germany, at the present moment, as a result of the merger of two great banks with nation-wide branches—every community practically in Germany is being affected—they are closing down, consolidating these branches, reducing the number. It is making a difference all over Germany. It is making merchants shift their banking connections all over Germany. Customers are changing.

The effects of a merger in New York are in New York, in the institutions affected. The effects of a merger, if you have a great branch banking system, run all over the country. Anything of that sort has wide ramifications.

I believe in the banking profession from a good many points of view. I have known bankers in many countries. I have known them in many parts of the United States. The banker, by virtue of his education in his business, the education that comes just from the work he does, tends to take a broader point of view than the man in most other lines of business, not because he is a better man, but just because his work educates him. He has got to look at all the interests in the community. Everybody deals with him. His prosperity depends upon the prosperity of the community as a whole. He does not want feverish development here at the expense of some other part of the situation. He gets to be a very good adviser. As he talks with people and customers come in and tell him things and talk over things with him, he gets a generalized picture of business, not knowing as much about business A as the man in business A knows, but knowing the philosophy of business. A man in the textile trade comes in who has a problem; well, somebody else in steel had a similar problem and the banker knows about that, knows how it was solved and he has an idea to pass over to the textile man.

I do not want to see good bankers disappear from the smaller communities. I think that it is a good thing to have strong, trained, independent bankers, interested in the local community, stay in the local community. As I have traveled about meeting bankers in this country, meeting bankers in Europe—there are extraordinarily able bankers in the financial centers of Europe, but you go into the branches away from the head office, and you do not find bankers of the caliber that you find in cities of the same size in the United States, where they are independent men handling their problems as masters of their own banks.

I believe that the country would lose a very important influence making for good business, for initiative, for business education, not right away but in the course of time, if we change from the general system of unit banking to the general system of branch banking away from the city of your head office.

Mr. Chairman, I do no twant to take very much time in making my statement. I would rather have the committee have all the time it wants to ask questions. May I ask how many members of the committee have read this speech that I made in North Carolina?

The CHAIRMAN. I think a number of them have seen it.

Mr. ANDERSON. Perhaps I had better make a summary of some of the main points. For the benefit of my friend, Mr. Seiberling——

Mr. BRAND. I think he has read your speech. He stepped out just for a moment.

Mr. ANDERSON. He has evidently read it. He raised the question about my first heading, "A Revolutionary Proposal." That is a short way of saying, "A proposal of fundamental change." I did not mean it as an epithet.

I have a great admiration for the comptroller, a great admiration and affection for Governor Young. I have not known the comptroller long; I had not had the pleasure of meeting him personally until yesterday. But my feeling about the thing is this: The governor, the comptroller, and others who have presented the proposal for branch banking here have done it sincerely, based on knowledge, based on study, in the interests of the country.

I think that I have some ideas which also in the interest of the country ought to be presented on the other side.

The question of personal opposition is not there at all. They are our friends; we are their friends. But in the controversy, in the presentation by fair men of opposing points of view, the truth comes out, and it is just in that spirit that I have taken a citizen's right to oppose their position.

Mr. SEIBERLING. Were you explaining, while I was away, your statement with reference to a revolutionary change?

Mr. ANDERSON. I am going to give it a new phrase that I think you will not object to. I will withdraw "revolutionary proposal." I will call it, "A proposal of fundamental change," and I will make the same point with reference to it, that a proposal of fundamental change calls for much stronger argument that a proposal for minor amendment, and it ought to be much more carefully considered.

I was just explaining that I had no disposition to say anything offensive to my good friend, Governor Young, or to the comptroller, for whom I have great admiration.

I make the point here that the existing movement toward group banking and branch banking leaves out the little banks, the microscopic bank almost, the bank of $300,000 deposits on the average, which has been failing. That is the average size of the failed banks in the last nine years. These group banking and branch banking plans handled by able and intelligent bankers, who must take care of their stockholders' and depositors' money, call for good banks.

Mr. BUSBY. You said something about the average size. Is that from the standpoint of deposits or number?

Mr. ANDERSON. Deposits. The average size was $300,000 of deposits.

Mr. BUSBY. You were not speaking from the standpoint of the number of banks that failed?

Mr. ANDERSON. The figure of failed banks is about 5,000, and the deposits of those banks is $1,500,000,000, and the average is $300,000. The average size of banks going into the group and chain systems is very much larger.

These figures I have taken from your own record. I want to say, Mr. Chairman, you are doing an admirable service here in publishing this record and the facts that the comptroller presented and the facts that Governor Young presented, especially, are valuable, significant facts.

Mr. SEIBERLING. I understood that you were about to say when you were interrupted that the chain groups only wanted good banks.

Mr. ANDERSON. In general.

Mr. SEIBERLING. You made that statement, did you not?

Mr. ANDERSON. In general. As good bankers they are not going to pick out a failing bank that is going to cost them more money than it is worth. It might happen in individual cases that something would be done along that line. In a great emergency, good bankers will sacrifice money to save the general situation.

We all pitched in, you may remember in, in the rescue party for the Northwest that Mr. Jaffray conducted, put up money that we did not know whether we would get back or not, to meet an emergency situation. But that is not usual banking practice and no banker responsible to his stockholders, responsible to his depositors, has any

right to make a move that is going to cost his bank money, except in some such emergency.

As to the size of the towns where these failed banks were situated, 40 per cent were in towns of less than 500 people; 80 per cent in towns of 2,500 people or less; 92 per cent in places having less than 10,000. There were no failures at all of banks having $2,000,000 or more of capital. There were only four failures among banks having over $1,000,000 of capital. And I conclude that it may be said that for cities of 10,000 or more people and that for banks of $100,000 or more, there has been no problem of sufficient magnitude to justify extraordinary concern or to call for more than local attention.

The causes of these failures I do not find in things that have any particular concern with the question of branch banking on the one hand or unit banking on the other.

The first and foremost cause was the great boom of agricultural prices and land values before 1920, the collapse of agricultural prices and land values following 1920, and the adverse conditions in agriculture that have since continued.

The second great cause is real-estate speculation in the period since 1920 in certain important sections of the country, notably Florida and some adjacent States.

Mr. STRONG. Would you mind an interruption there? The bank commissioner of the State of Oklahoma in a statement before the committee presented this condition. He said that a very small per cent of the banks organized since 1920 in the rural communities have failed, giving evidence of the fact that the failures were caused by the hangover of frozen loans during the war and the boom and the deflation period that followed.

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. Since you speak of bank superintendents, I would like to introduce Mr. Nelson, the auditor of the State of Illinois, who is present with the committee this morning. Mr. Nelson is the superintendent of banks of the State of Illinois who is visiting Washington and has just dropped in at our hearings.

Will you proceed, Mr. Anderson?

Mr. ANDERSON. I have figures here taken from your records showing the geographical distribution of these failures that bears out this proposition. During that same period all of New England had only 26 failures, that is, during that 9-year period. New York had only 12 failures and Ohio only 36. New Jersey had none at all; not a failure. New Jersey was not lacking, by the way, in some agricultural difficulties. Monmouth County had a bad period with her potatoes and there were certain other sections where small country banks had to struggle along. But not one went under.

What about branch banking during that same period, and exposed to these same causes? You had in Georgia, and running into Florida, as I remember, a chain, which went down, which would have gone down if it had been a group, which would have gone down if it had been a branch banking system.

In Canada, the Home Bank, and the Merchants Bank, with 400 branches, went under from these same causes.

In Denmark, a great bank with branches widespread, went under.

The Banque Industrielle de Chine in China collapsed with its bank notes out, bringing disaster all over that great country.

The Banca di Sconto in Italy, with a great head office and big branches in the big cities, with little branches in the smaller cities, all went down together at one time. That is a fearful thing.

Mr. FENN. What about South Africa?

Mr. ANDERSON. I have not the facts there.

In Japan, they held it off. I am going to make another point about Japan and about banking concentration. In Japan, in 1919, a crisis started. Silks broke violently. A crisis started. A few great banks and the Government and a few great industries got together. The thing was so concentrated that they could choke the crisis off, just held it without getting in liquidation, without getting a break in commodity prices on a great scale. They carried it over, unliquidated, frozen for seven years. For a time, they even paid out wages to idle labor, borrowed at the banks to get some money for it. They paid out dividends out of corporate reserves when the corporations were not earning any money, trying to hold it, trying to prevent the crisis. Then in 1927, after enduring seven years of stagnation to avert losses on one year's inventory, a greater and more disastrous crash came and not only did the industries go down, but some great banks went down; great banks with branches, gigantic systems affecting the whole country.

In the meanwhile, we in this country with 25,000 banks, when the crisis hit us in 1920, could not stop it. Each bank had to meet its obligations at the clearing house every day. We could not hold frozen positions. We had to liquidate. Calling on the Federal reserve banks, we could steady it, make it steady, keep it from turning into a panic, but a liquidation, a readjustment, we had to have. And so we cleaned up the weak spots, got prices down and got costs down. Cases of necessary failures, we took care of. There were no unnecessary failures. We got clean and got ready for the net upward move, and by the third quarter of 1921 business began to improve in this country. The year 1922 was a good strong year. I like the flexibility of our competitive American system. I do not want to see banking concentration or any kind of concentration go so far that a few men can get together and say, as these bankers and government officials in Japan did, in the interest of the country, believing that it was a good thing to do, "Let us stop the liquidation; let us hold it."

No; I do not want anybody to be powerful enough to do that. I want the automatic economic forces to work. I want the competitive play of the markets to work so that readjustments will come, as they have to come, and we will get through with them and start up again.

Austria had a break last year, a great branch banking difficulty growing out of the same deferred causes, trying to carry things over. If they had been separate banks, some of them would have gone under and some of them would have survived years ago. As it was, it all hung together until it all went down.

Now, as to remedies. I see nothing in this situation regarding banking failures that we have been having, to call for radical changes in laws regarding branch banking. The problems do not extend throughout the United States. They are centered in particular States. They do not relate to institutions of such size as to be beyond the power of the States to deal with for themselves.

I think the main legislation should be State legislation; that the chief legislation which would be called for here would be such modi-

fication of the laws as to let the national banks in a given State do what the State banks may do in the matter of branch banking, in the interests of parity between State and National banks.

That is a conclusion, Mr. McFadden, that I have come to rather reluctantly, because I liked your idea about it when you were dealing with the matter two or three years ago. But I am inclined to think you have to make a further concession of that point in the interest of parity between State and national banks. And maybe you will not have to go that far; maybe something less than that would meet the situation.

The CHAIRMAN. You like the confining of the operation to State lines rather than trade areas?

Mr. ANDERSON. The State line, by all means. I should strongly oppose forcing upon an American State that was opposed to branch banking, by Federal law, a branch of an outside institution. And I think, Mr. Chairman, that the specialist is always in danger of forgetting that he is a citizen and in his zeal to do a thing that seems good from the standpoint say of banking or from the standpoint say of health or from the standpoint of this or that, he is too cheerfully willing to destroy the Federal system of Government of the United States. I believe in the States. I believe that Washington already has too many things under its control; that it makes too many decisions for the country. I believe that problems differ in different parts of the country and ought to be handled locally as far as possible.

I find on the other side of the water—in England, for example—a movement toward devolution, that Wales and England and Scotland separately may do more things for themselves rather than have them all done by general law. Centralization has gone too far in many places and I do not want to see the State destroyed or the State's power destroyed in these matters.

I like very much some of the moderate ideas of Mr. Platt, of the Federal Reserve Board, with reference to local branch banking, in order to give something to the little village that can not afford a real bank. A bank in the county seat, a good bank in a good county seat, with small inexpensive offices out in the villages might serve them much better than they can be served by independent banks in the villages.

Sometimes these little banks are awfully good. I have a prize, in a tiny village in Missouri, which is about 30 miles from the railroad. I am a Missourian and for my sins I own some land down near there that I have had for about 21 years and can not sell.

Mr. SEIBERLING. How long are you going to keep it?

Mr. ANDERSON. I wish I knew, sir. I will sell it to you very cheaply, if you will take it. But here is a bank, capital $10,000, surplus $3,000, undivided profits $784 and 6 bits, deposits $78,000. It is a good bank. It has an able man running it, and he is mighty useful in that little place. There are about 250 people. He is remote from the railroads, and the automobile roads are not good through there. In general, however, a village of that size can not support a bank. It might have an office open Tuesdays and Thursdays to advantage, might it not, from the near-by county seat? That is better than no bank at all.

Now, legislation along this line, State legislation, simply supplementary legislation here, such as to enable the national banks to do

the same thing, authorizing banks in the larger cities to establish branches in outside communities with 10,000 or less inhabitants, or even 5,000 or less inhabitants, would accomplish virtually everything with respect to the prevention of small-bank failures that branch banking could in any case accomplish. Furthermore, such a limitation would concentrate upon the communities most in need of it the attention of the bankers who are in favor of such developments but who would be hunting bigger game in larger cities if the whole field were thrown open.

I said something at the end about a very grave practical danger that I shoud apprehend if the legislation that has been proposed here were put through.

If you authorize banks of the country to establish branches throughout great districts, wide as Federal reserve districts, or wider——

Mr. STRONG. Trade areas?

Mr. ANDERSON. I am not talking about trade areas. I have not got a definition here yet. It is clear that it can be for a big city bigger than the Federal reserve district in some cases, and if it is going to be an economic trade area, then for New York it is going to be a very big district indeed and for Chicago it is going to be a very big district indeed, with overlapping. And St. Louis had a big trade area. You can not limit it to the Federal reserve district if you are talking economics. If you are talking about the natural course of trade, it runs wide. Even if it is just Federal reserve district wide, you are going to start a competition among the big banks, buying up other banks; all over that I should shudder at. I do not want to see it. I do not want to see that orgy of bank-stock speculation. I do not want to see promoters running in there to get options on banks to sell to big banks.

I do not want a revolutionary change. I want evolutionary changes. I want an experiment here, an experiment there. We are adopting things generally to our present system. If we are going to change it, it should grow, it should be modified. But let us do it gradually. Let us not start a thing in Washington sweeping all over the country that will make this revolutionary change or this fundamental change.

I think I will not talk longer, Mr. Chairman.

The CHAIRMAN. The committee will not go into executive session for a few moments, and we will resume this hearing a bit later.

(Whereupon the committee went into executive session.)

(The hearing was resumed, following the executive session, Hon. James G. Strong, presiding.)

Mr. STRONG. You may proceed, Mr. Anderson.

Mr. ANDERSON. I want to make one statement, in addition to what I have said, if you will permit me.

There are exceptions to the general statement I made that the groups are not taking an interest in the small banks. In one case there was a bank of $410,000 deposits taken into a group. There may be others; the average size is very much larger.

I am informed also that one of the groups in the Northwest, although it started out taking in only the strong banks, has lately put four or five million dollars of new money into some communities where the banking situation was very bad, to give them banks.

That is exceptional, but I want to put into the record the fact that the exceptions really exist.

Mr. STRONG. Doctor Anderson is now ready to answer questions. Heretofore we have proceeded to permit the members to cross, examine a witness according to seniority. Some of us have taken so long a time in our cross-examination that when we got down to the end of the table some members have been deprived of their opportunity to ask questions.

I want to suggest that in the first round of questions we limit each member to five minutes; and if that has the approval of the committee we will proceed in that way.

Mr. STRONG. Doctor Anderson, your statement I think has been very valuable to the committee in many ways. One of them was in showing to this committee the fact that in countries that have long had established branch banking the small towns have finally been reduced to the banking privileges of perhaps one day a week.

Mr. ANDERSON. I would not generalize from England. These are the facts about England.

Mr. STRONG. Is not that because of the practical elimination of the middle-class people in England?

Mr. ANDERSON. I would not say so.

Mr. STRONG. There is a wealthy class and then the employees in England. Individual business has pretty well been eliminated.

Mr. ANDERSON. There is a large employee class and a lot of shopkeepers.

Mr. STRONG. Small ones?

Mr. ANDERSON. Yes.

Mr. STRONG. We are starting upon a system in this country of mergers, mass production, and chain stores of all kinds, clothing stores, grocery stores, drug stores, and cigar stores; and if we adopt the system of branch banking it means the elimination of the small bank, making it simply a teller's window, with that responsibility only, and the head bank will be in some other place, and tending to further eliminate the individual man in business.

Mr. ANDERSON. I think the local bank is more likely to help the smaller business man, to help the growth of the smaller communities than a branch would, and yet there are exceptions to that.

Mr. STRONG. Certainly.

Mr. ANDERSON. In some countries they tell me the thing has often worked the other way.

Mr. STRONG. In small-sized cities and small communities the privately owned bank, owned by the community, is generally operated, practically always operated, in the interests of the community. Is not that banker generally the backbone of that small community?

Mr. ANDERSON. I believe he is very important.

Mr. STRONG. The Comptroller of the Currency in suggesting trade areas for branch banking was not able at that time to give us a picture of what the trade areas would be when applied to the United States, but he said they were working it out.

When the governor of the Federal reserve system was before us he stated, I think, that they were working out a plan that probably would embrace about 35 trade areas in the United States, which would mean not necessarily following the lines of the Federal reserve districts, some of them, perhaps, overlapping.

Then the governor of the Federal Reserve Board suggested that he thought within 50 years we would have nation-wide branch banking.

I did not cross-examine him as to what his conclusions were, but to my mind if we are now going to go from branch banking controlled by cities to trade areas of 35 units in this immense country, some of them overlapping, undoubtedly that overlapping will enforce an enlargement of the trade areas, which will finally mean nation-wide branch banking. Would not that be your conclusion?

Mr. ANDERSON. I think if you sanction the movement it might go very much farther.

Mr. STRONG. If we are to expand branch banking to 35 trade areas in the United States, which you feel and I feel will gradually become reduced to a lesser number and finally produce nation-wide banks, those branch banks and groups would naturally be controlled in the larger moneyed centers.

Mr. ANDERSON. Yes.

Mr. STRONG. They themselves would have a tendency toward combinations?

Mr. ANDERSON. A tendency to combination with the springing up of new banks. Perhaps you have noticed the growth of Mr. H. P. Howell's new bank in New York in the last three or four years. I am not sure that the growth of banks in the big cities has been out of line with the growth of customers in the big cities, great corporations, and so forth.

Mr. STRONG. I am putting that as a final conclusion. Then that would lead to a few great groups not only controlling the money but the credit of the Nation.

Mr. ANDERSON. The tendency would be there.

Mr. STRONG. Would not that put the entire Nation under the domination and control of those groups?

Mr. ANDERSON. To the extent that competition was eliminated; yes. But if the groups remained numerous enough so they competed vigourously, I think that would not be true.

Mr. FENN. I did not have the opportunity to be here when you began your statement. In your long experience and your intimate experience, do you think the system of branch banking would be beneficial or detrimental to the Federal reserve system? Have you given that consideration?

Mr. ANDERSON. I had not given it special consideration. Offhand I can not see how it would affect the Federal reserve system greatly if the branch banks are in the Federal reserve system. It works in Europe. This system works along with central banking.

Mr. FENN. And works well?

Mr. ANDERSON. The central bank can control the money market just as well in Europe as it can here.

Mr. FENN. I am speaking of the relationship of the member banks to the Federal reserve system.

Would you extend the provisions of the McFadden Act in regard to branch banking; and if so, would it be beneficial or detrimental?

Mr. ANDERSON. You mean allow the national banks to do what the State banks do in a given State?

My suggestion would be that the only legislation this committee need to recommend so far as branch banking is concerned, would be that national banks may do in a given State what State banks and trust companies may do in that State.

Mr. FENN. In other words, you would extend the provisions of the McFadden Act?

Mr. ANDERSON. Under the McFadden Act they are limited to the large cities.

Mr. FENN. You would extend the McFadden Act?

Mr. ANDERSON. I think it may be necessary. It is a conclusion I come to reluctantly, but it may be necessary in the interest of parity between the national system and the State systems to allow national banks to do in a given State what the State laws allow State banks to do.

Mr. GOLDSBOROUGH. Doctor Anderson, I understand your view to be that even though you do not approve state-wide branch banking, you think that in the interest of the national system as a system, it should be allowed the same branch-banking privileges as State banks are allowed?

Now, I think I am correct in saying that recently at least in two States laws have been passed which prevent any extension of branch banking in State banks.

The pressure which has done that, in my judgment, is the pressure of the national banks which were not allowed to indulge in branch banking in those States.

Would it not be better to allow the condition to remain as it is, so we would still have in the States which allow branch banking the pressure of the national banking system against branch banking in an endeavor to eliminate branch banking in States which now allow it, my thought being that if you have in a State not only state-wide branch banks of State banks, but state-wide branch banks of National banks it would almost take an economic revolution in the State to get rid of that system, however bad it might be found to be.

Mr. ANDERSON. You are raising a question which I do not feel very competent to answer. It is not a question of economics; it is a question of politics. It is a question of what is the best way to control the legislative policy of a State.

In general, I do not like to consider an argument of that kind; I had rather have the case up for its merits as an economic question in the State, trusting to the good sense of the State to work it out.

I am not so absolutely sure that I am right about these matters not to be willing to see the State experiment along different lines if the good sense of that State wants to experiment along that line and to learn something.

Mr. GOLDSBOROUGH. In a speech I made in the House some time ago I presented the argument that we should allow States like California, for instance, to work this thing out and find just what the final reaction was before we extended the national system.

But what I am afraid of is that if we extend the national system in States like California, for instance, branch banking among national banks would become so widespread it would develop itself, whether it is sound in principle or not, and that the best way to handle the matter is to attempt to stop branch banking in State banks rather than to extend branch banking in the National banks, provided we are right in principle that the unit bank is the better system for a country like ours.

Mr. ANDERSON. When you say "a country like ours," we have every variety of situation in this great country of ours. I am not sure that any one practice is best for the whole of 48 States.

Mr. GOLDSBOROUGH. You do not think, then, that there is a basic principle involved. You do not think there is a principle which says it is better, even at the expense of what appears to be efficiency for the moment, for the communities in the country to develop as individual entities, so they will have their own institutions, their own banks, and their own businesses fostered by these banks?

Mr. ANDERSON. That is a principle which I believe in; but I believe in some other principles which might oppose it.

I think you have a number of factors to take into account, and you have to work out an adjustment among the different factors. Suppose you have a State with only one city of any size, the rest being small communities, and they have not a great deal of banking capital anyway. Might it not be better centered about that one city in the State and have it aggregated there?

Mr. GOLDSBOROUGH. If you could control it. But after it starts, can you control it? After a while does not the bank, get so much control over legislation that the system will develop itself and get out of control? That is the difficulty I see.

Mr. ANDERSON. I do not believe in inevitable economic tendencies. I think that law is a powerful instrumentality that can change economic tendencies.

Toward the end of the eighteenth century England and France both had immense concentration of land in a few hands. But England and France are widely different in that respect now. The land is widely broken up into very small holdings in France, while in England it remains as it was.

Mr. GOLDSBOROUGH. But France had to have a terrible revolution to arrive at that result.

Mr. ANDERSON. It did not need to have.

Mr. GOLDSBOROUGH. But it did have.

Mr. ANDERSON. France changed the law of inheritance. The English law gives all the land to the oldest son, while the French law provides for equal distribution among all the children. Within a century you had this immense change.

Mr. GOLDSBOROUGH. So this change in France took place——

Mr. ANDERSON (interposing). As the result of the revolution——

Mr. GOLDSBOROUGH. As the result of the revolution, of course.

Mr. ANDERSON. But the change could have taken place by simple legislation in a democratic country.

I believe in democracy; I do not think democracy is powerless against capital or against economic interests of other kinds. I would rather see the States left with a good deal of freedom to experiment, and make mistakes if they want to.

Mr. GOLDSBOROUGH. I agree with that. But the question which arises in my mind is whether we ought to sacrifice a principle we believe in because it will be more expedient or more profitable for the national system to do so.

Mr. ANDERSON. I would hate to see such things settled just as a matter of competition between the States and the national system.

Mr. GOLDSBOROUGH. That is your present position?

Mr. ANDERSON. Yes; I am making this as a reluctant concession. Maybe you do not need to go so far. It is a concession I am making to the comptroller's views.

Two or three years ago, when the McFadden bill was up, I thought he had gone far enough. I am making this concession after reading the comptroller's testimony.

Mr. GOLDSBOROUGH. I want to state the condition in Caroline County, Md., which is typical of conditions throughout Maryland, and as I understand it, pretty well throughout the East.

Caroline County has a population of about 18,000 and it has 9 banks. All those banks are prosperous.

The Hillsboro Bank was started in a place of 150 inhabitants in about 1909 with capital stock of $12,000. That stock is now worth 7 to 1.

The Goldsboro Bank was started in a place of about 100 inhabitants in 1909, and that stock is now worth about 5 to 1, with $12,000 capital.

We have found that having these local institutions scattered around the county has helped the inhabitants of the local communities a great deal and has secured a much better government for the county than when everything was centered in the county seat.

Mr. STRONG. The same thing applies to the Government.

Mr. ANDERSON. What are your sources of income in the community?

Mr. GOLDSBOROUGH. Principally, general farming, truck farming, and the canning industry.

Mr. ANDERSON. Have you some retired capitalists there who have securities?

Mr. GOLDSBOROUGH. No.

Mr. ANDERSON. I like to see the little bank survive in the little village. I have an affection for it.

Mr. GOLDSBOROUGH. Is it not more than a question of sentiment? Is there not a question of solidarity involved?

Mr. ANDERSON. I think it is good for the country to have them, exactly.

In a lot of places they are being eliminated by the new economic developments and in those cases probably we had better have branch banks. If the banking business is dininishing we had better have one strong bank than a lot of weak ones. But if you have a good, strong situation there with several local banks, the more competition the better, if it is good competition.

Mr. GOLDSBOROUGH. I was talking the situation over with the president of one of the leading banks on the eastern shore of Maryland the other day, and I said, "What would happen if some bank came from New York or Baltimore and offered your stockholders one and one-half for one of the real value of the stock?" He said, "They would sell." The unit bank would be wiped out whether it was good or bad.

There are a good many of us, and I am one of them, who feel that what Congress should do is to act as a restraining influence rather than a liberalizing one, certainly until we find what the secondary reaction is going to be in States like California and in these group systems.

It does seem to me that any encouragement on our part of the development of branches in States which already have that system would tend to go in the very direction which the unit banker, that is, the citizen who believes in unit banking does not approve of.

You still feel that we ought to let the national banks do what the State banks are doing?

Mr. ANDERSON. It might not be necessary to go as far as to authorize state-wide branch banking, but I think there are some States where this system of rural branch banking, along the lines that Mr. Platt of the Federal Reserve Board favors, would still help the situation.

I am thinking of our friend from Georgia, Judge Brand, and of his problem, for example.

You might say the national banks could go so far as to put branches into towns of five or ten thousand or less. Then that would not expose you to what you do not want.

Mr. GOLDSBOROUGH. My experience of nearly 30 years in politics is that when you abandon a principle, if it is fundamental, pretty soon you lose control of the situation created by that abandonment. For instance, in connection with this matter we are discussing—when you control the credit of a community you control its political life and its business life; you control practically everything in it from an economic standpoint. You can not get away from it.

Mr. ANDERSON. I do not want to see banking monopoly anywhere; I want competition preserved.

Mr. BUSBY. In regard to extending branch banking by national banks to States having a general branch banking system, do you not see that as an effort to correct what is admitted by you to be an evil situation by acceding to it?

Mr. ANDERSON. I do not think that is the comptroller's purpose.

Mr. BUSBY. If I understand you, you are against a national law extending branch banking to all the States?

Mr. ANDERSON. Yes, sir.

Mr. BUSBY. If that is sound as a general principle, why would it not be sound as to the States that have a branch banking system, such as California?

Mr. ANDERSON. There are two principles involved here; one is whether with a Federal system like ours, with our system of States, with a Federal Government of limited powers, whether under that system the States have a right to say a great deal about what they want.

Mr. BUSBY. Yes.

Mr. ANDERSON. Now, then, here is a banking principle which seems to conflict with that in some measure.

I am willing to concede to the States that want to do a thing I do not approve of, the right to do it, but I do not want the Federal Government, by law, to do the thing we do not want.

Mr. BUSBY. You want to prevent them from doing that thing in order to protect the national banking system in those States?

Mr. ANDERSON. Yes.

Mr. BUSBY. Yet you will concede that it is an error for the State, as it would be an error for the National Government, to place branch banking——

Mr. ANDERSON (interposing). No, sir; that would not necessarily follow. It might be the best thing for a State to establish, say, county-wide branch banking, or branch banking in groups of counties. I would even concede the possibility in some States that state-wide branch banking might be desirable.

Mr. BUSBY. You understand that most of the laws enacted by Congress apply to all States alike.

Mr. ANDERSON. Therefore, I do not want this act passed by Congress.

Mr. BUSBY. That is the general policy that national legislation applies to the entire country alike.

Mr. ANDERSON. Exactly.

Mr. BUSBY. While to extend branch banking for national banks in States that provide branch banking systems, you would be willing to make that exception to the general method of enacting national legislation?

Mr. ANDERSON. I think Congress might be even wise in erecting a principle of national legislation that where you have to deal with local matters, Congress would follow the State law.

Mr. BUSBY. It strikes me you are conceding the point for the sake of expediency rather than carrying out your economic theory and standing on such questions on what you feel and know to be sound. That is my comment on your answer. Have you any reply to that?

Mr. ANDERSON. Yes, sir; and I would like to refer you to some decisions of Mr. Justice Holmes.

Mr. BUSBY. I only have five minutes.

Mr. ANDERSON. Let me say that there are principles of economics and there are principles of constitutional law and there are principles of morality, there are principles of banking technique and you have to harmonize them all. You can not erect one and say this is the principle you have to take, if you want anything.

Mr. BUSBY. Whether involved in this or not.

Now, with regard to controlling established branch banking systems, or coordinating the systems of banks, what is your view with regard to the holding company, or the part it plays in that field just now? How are we going to get by its interest, if we are going to carry out the policy you have indicated?

Mr. ANDERSON. I have not said anything about that.

Mr. BUSBY. I noticed you had not, but it seems to me as fruitful a field for legislation just now as the banking field. It is the thing that is absorbing the banking system throughout the country, by putting into effect its own uncontrolled and unmanageable plan in regard to banking, from one end of the country to the other.

Mr. ANDERSON. I am not enough of a lawyer to know what sort of legislation, if any, should be drawn with respect to that. I believe there should be supervision; I believe in the general American practice of public supervision of banking institutions.

Mr. BUSBY. We have had instances where not only two, but a number of national banks were owned and controlled by holding companies, with not one share of the stock in the hands of individuals.

Is it not getting beyond our national banking system of control when a State-chartered institution comes in and takes control of all the stock and all the capital of the national banks that are chartered under the laws of the United States?

Mr. ANDERSON. There is nothing in that, as far as I know, that violates the law.

Mr. BUSBY. That is our problem now, more than anything else with regard to banking, it seems to me.

Mr. ANDERSON. The comptroller is making some studies, is he not, with respect to that?

Mr. BUSBY. We have heard some views, and I thought maybe you had some additional ones.

Mr. ANDERSON. I have thought about it, but I had not thought it through, and I have not a definite suggestion to make with regard to it.

Mrs. PRATT. Doctor Anderson, in looking over your report again I notice you make the statement that many of those small banks failed because of a lack of diversification of their credits, while many others, because of diversification, continued to exist. Does it not come right down to this, in your opinion, that it is a lack of good management? You state in your report that banks have continued to operate because of their diversification of credits and because of the connections they have made by which they could exist, outside of their own State, and that it has been to their advantage to do that.

It is your opinion, is it not, that the small banks perhaps were founded with too small capital and were without good business management, and that it had been the result of their own mismanagement and lack of foresight?

Mr. ANDERSON. Poor management in a difficult and unusual situation. There were a great many of those bankers who were good bankers in the days when they did not have quite enough money to lend and had to discriminate among their customers, and then came the great expansion of money, and the question of what should they do with their money. They tied up too much in local mortgages. That was the worst element; and when the crash came——

Mrs. PRATT (interposing). Do you not feel that because there were so many of those banks some of them were bound to fail, no matter if all of them had a diversity of credit?

Mr. ANDERSON. There are parts of the country where there were too many very small banks, and some places where there was one bank to six or seven hundred people, or one bank to 1,200 people, and it was not possible for them to get along. There were too many of them and they could not get adequate management for them. If they could have had one bank to 2,500 or 3,000 people they might have got along pretty well. The very tiny bank has been overdone, and we need to correct the system with respect to that.

Mrs. PRATT. In some States where they have the State banking system and where they have branch banks throughout the entire State they have withdrawn from the Federal reserve system in order to do so.

You say you have reluctantly come to the conclusion that national banks should have the same privileges?

Mr. ANDERSON. I think it is better to have them in the Federal reserve system.

Mrs. PRATT. If they do not have that same system, is it not a necessity in those States?

Mr. ANDERSON. To let the national banks do it?

Mrs. PRATT. Yes; because they will then not withdraw and go into the State systems.

Mr. ANDERSON. How many of the State banks have withdrawn?

Mrs. PRATT. I could not state that. That was brought out here.

Mr. GOLDSBOROUGH. Only some very small banks, I think.

Mr. ANDERSON. I do not believe a great bank can get along any more in this country without staying in the Federal reserve system. I think they need the Federal reserve system, and the bigger they are the more they need it. The smaller ones can look to the bigger to be

a reserve bank for them, but the great bank must wither carry a tremendous lot of idle vault cash or else it must be in the Federal reserve system.

Mr. STRONG. Do you not think a local bank, an independent bank, a bank locally owned, where the officers are interested locally outside the bank would be a better bank for the community and be as good a judge of loans as a manager sent in from the outside, whose appointment was subject to the approval of the parent bank?

Mr. ANDERSON. He would know the local community, he would know the people there. His heart would be there. He might not be very well trained as a banker. He might be overenthusiastic about the local community. I think, in general, the proposition is right, but I think there are enough exception so that we must listen to the branch bank side of it.

Mr. STRONG. Do you think that the parent bank would be able to employ a manager in a little town who would be a better banker than a man who grew up in that little town and had his money tied up in it and knew the people?

In other words, they will employ a man with ability in the little town, but he will be a small salaried man. Do you think that on the average the chance would be that by putting in a manager from the outside in that way that you would get the ability in a bank that you would get in a town where a man owned his own bank?

Mr. ANDERSON. I think the presumption is in favor of the local bank.

Mr. STRONG. Did I understand you to take this position, that you are opposed to branch banking, opposed to trade area branch banking, but would consent, as an experiment, to state-wide branch banking?

Mr. ANDERSON. If the State wants it.

Mr. STRONG. Then if you will permit one State to have State-wide branch banking, then the bankers in other States and the people who want the proposition will immediately get busy on the legislature so as to have their States have State-wide branch banking.

Mr. ANDERSON. If the rest of the people of that State do not object and go along with it.

Mr. STRONG. But the rest of the people do not study the question.

Mr. ANDERSON. If it should be demonstrated——

Mr. STRONG (interposing). We have had the case of California already with over 300 banks, and we have had several other States.

Mr. ANDERSON. Yes, I know.

Mr. STRONG. We have the example of California which has developed branch banking to an extent where one bank has over 300 branches, and we have other States that have branch banking, dominating and monopolizing the banking of those States. We have the experiment there.

Mr. ANDERSON. My thought would be that the Federal Government should do nothing to push that along, that the Federal Government should do nothing to encourage it, but that to the extent that it is necessary to protect the national banking system we might go along with it in those States.

Mr. STRONG. Then we would have to go along with it in every State because the State banks will get a state-wide branch bank law passed, with the assistance of the national bankers, and they will have to join it.

Mr. ANDERSON. I do not insist upon my point there, but I was disposed to make that concession to the comptroller's views.

Mr. STRONG. Do you not think we have gone along far enough in branch, group, and chain banking in the United States where Congress should do one thing or the other, do something about it?

Mr. ANDERSON. I feel Congress should not do anything to push it further.

Mr. STRONG. Then it will go a lot further. The advocates of branch banking are putting up this argument, that most group and chain banks are not desirable, but within three years group banks will be established in every State of the United States. If we wait until that time, the only remedy is nation-wide branch banking.

Mr. ANDERSON. I think this, that if it is definitely understood that Congress is not going to sanction transforming existing groups into branch bank systems, if that fact is made clear, then a great many people will lose interest in it.

Mr. STRONG. We have the instance of Minneapolis and St. Paul, where within a year they have organized more than 100 banks each and say they are going to control even the Federal reserve district, going to take in every good bank in that district. We have Buffalo and Detroit and Atlanta that have formed these groups. If we do not do something to stop them, they will form groups in every State, and the only outlet for the protection of the State is this system of nation-wide branch banking.

Mr. GOLDSBOROUGH. A very prominent Member of Congress from the Northwest came to me the other day. Heretofore he had been strongly in favor of unit banking, and he said that this group banking had gone so far in his territory he could not back unit banking any longer, that it would put him out of business to do it.

Mr. STRONG. There is a persistent drive on to force group banking, with the ultimate outlook to branch banking throughout the United States. That has been made very plain in these hearings.

Mr. ANDERSON. You are satisfied that the ultimate purpose is is to transform groups into branch systems?

Mr. STRONG. Certainly.

Mr. ANDERSON. Then suppose you make it very clear that you are not going to approve of that, what about the motives of the banks for going any further?

Mr. STRONG. They will go ahead and establish group banks and say just as the gentleman who came before us representing Minneapolis and St. Paul said, "We have an ideal situation; we have improved the financial condition in our district."

Mr. ANDERSON. That is what I have heard from them, that they feel that the group banking system is better and that they have improved conditions. When that is true, then the question as to being transformed into branches subsequently will not be so important. But I think there are many cases where group systems have been organized simply on the theory that Congress will say yes to them after a while.

Mr. STRONG. I may say in support of your theory that I was told by a very reliable banker, whose word you and I would take, that in a conversation he had with one of these group bankers in Minneapolis and St. Paul, he said to him, "What will the ultimate result be? Is this a permanent thing?" "Oh," he said, "we are going to have

branch banking, and we will sell out to a New York branch banking group and make several million dollars."

There is another question I want to ask you, and that is whether or not giving permission for the continuance of the extending of group, branch, and chain banking will hurt the Federal reserve system? You talk about confining it to States. The Comptroller of the Currency talks about confining it to trade areas which he thought might mean 35 trade areas in the United States, which, of course, would mean one, two, or three cities in a group.

Mr. ANDERSON. The difference between his view and mine is this. He speaks about doing it by positive legislation. I am simply respecting State's rights and suggesting that the experiment be made under the State law.

Mr. STRONG. You think it is safe to do that, but some of us do not think so, in view of the development that is going on now in the banks in Minneapolis and St. Paul, where the bankers in those cities think it should be confined to the Federal reserve district, and that is also true in Atlanta. Do you not think that the Federal reserve district, dominated and controlled by two groups, as they are going to do in Minneapolis and St. Paul, two groups in friendly relation to each other, will dominate and control the Federal reserve banks of that district?

Mr. ANDERSON. If they have all the votes, of course they can elect the directors, in so far as the banks elect them. But there are a great many independent banks in that region.

Mr. STRONG. There will be very few when they get through.

Mr. ANDERSON. There is the further question of the control of the Federal reserve bank. You have control here from Washington.

Mr. STRONG. But they say they will take over every big bank in that district, which means practically every bank in the Federal reserve system. They have now over a hundred in each group.

Mr. ANDERSON. I am not familiar enough with the facts.

Mr. STRONG. If it is true that in the Federal reserve system two groups can dominate and control the great majority of the Federal reserve banks, would they not dominate and control the Federal reserve bank in that district?

Mr. ANDERSON. To the extent that the stockholders can control it.

Mr. STRONG. That being true, if we have nation-wide branch banks controlled by a few big banks, with headquarters in Chicago, San Francisco, and New York, principally in New York, will they not dominate and control the Federal reserve system in the United States?

Mr. ANDERSON. Yes, to the extent that the stockholders can do it. But I must say at the present time, in the past history of the Federal reserve system, the stockholding banks have not had much influence on Federal reserve policy.

Mr. STRONG. The Federal Reserve Bank of New York has had a great deal; they pretty nearly dominate and control the system now.

Mr. ANDERSON. Not as stockholders.

Mr. STRONG. As a bank.

Mr. ANDERSON. That is another thing.

Mr. STRONG. If the stockholders control the bank, the bank will control the system.

Mr. ANDERSON. At the moment, the biggest stockholder in New York is the Chase National Bank, I suppose, and it would amuse my friend Governor Harrison if we should go over and tell him what to do.

Mr. STRONG. But suppose you were in quite friendly relationship with the fellows in the group that controlled all of them.

Mr. ANDERSON. They would have to deal with the Federal reserve agent in Washington. The Federal Reserve Board passes on the discount rate and passes on the open market policy, the latter being formulated by a committee of governors. That would not get very far.

Mr. STRONG. In the hearings a few years ago it was developed that when the president of the Federal Reserve Bank of Boston came down to have its rate changed that was delayed for several weeks, but when Governor Strong of the Federal Reserve Bank of New York asked them to change the rate it only took them 15 minutes to do it.

Mr. ANDERSON. That was not because of the influence of the stockholders.

Mr. STRONG. That was the influence of the Federal Reserve Bank of New York.

Mr. ANDERSON. It was the influence of a dominating personality.

Mr. STRONG. If you have nation-wide branch banking, as declared by the Governor of the Federal Reserve Board, would not that mean a few groups in the United States dominating and controlling the banks of the United States?

Mr. ANDERSON. I do not want it.

Mr. STRONG. I know; but If it comes, do you doubt that those groups will not dominate and control the Federal reserve system? Do you imagine the Federal Reserve Board in Washington standing up against them?

Mr. ANDERSON. It is a question of whether the Government is stronger than private interests; I believe the Government should be stronger than private interests. It is a question of the courage of the citizenship and the courage of the officials.

Mr. STRONG. When a few groups in the United States control the money and credit of the United States, will they not be stronger than the Government?

Mr. ANDERSON. It would be a dangerous situation that I should not like to see.

Mr. STRONG. But the second National Bank became so strong——

Mr. ANDERSON (interposing). That Andrew Jackson had to break it up.

Mr. STRONG. It was broken up, but the bank was strong enough to force the charter through Congress.

Mr. ANDERSON. Which he killed by his veto.

Mr. STRONG. But for his backbone and stamina it would have become a law.

I am speaking of the power of control over the money and credits of the Nation, of the most powerful government on earth.

Mr. ANDERSON. I see many powers and many forces, but I do not often see a situation where any one of them runs away with things all the time. There is action and reaction, back and forth play.

I see one other thing, too, that you must know, and that is that bankers are citizens, too.

Mr. STRONG. But we are going to eliminate the bankers as citizens in the communities of the United States, and the control is going to be in the great centers.

Mr. ANDERSON. I do not want it there, but the standard of citizenship is very high there.

Mr. STRONG. As to the influence and control of money over Government, there is now being advocated by representatives of the men who want this system of banking we are involved in to continue, this proposition, that while the branch banking can not be indulged in in the States under the McFadden Act, they have now found a way to do indirectly what the law prohibits them doing directly by establishing group banks, and they are going to proceed by establishing them in every State in the Union, and before Congress will act they will have these branch banks and get rid of the less desirable group and chain banks.

Can you not see there is an instance of a group, through the control of money, attempting to dominate and control the Government, and if it is successful they will have nation-wide branch banking, as the governor of the Federal Reserve Board says, while they will dominate a few groups in the United States, they will dominate the Government.

Mr. ANDERSON. I think there are very many bankers in the country who have figured out, as a matter of profitableness, that they do not see how they can make more money as a group-banking system than with the unit banks. But if you pass legislation of this sort you will force them into it.

Mr. GOLDSBOROUGH. That is the idea.

Mr. ANDERSON. If you do that, a good many of them will simply say, what is the use?

Mr. STRONG. I can see you are very much afraid of the passage of this legislation. But let me say to you it will not pass, but if they can have group banking established in the States, or they have branch banking established, then they will put it over. We have got to act now to stop this attack, to stop them trying to do indirectly what the law prohibits them doing directly, and to get control of the situation, because if we do not they will have nation-wide branch banking and control of the Government, through control of money and credits of the country and the elimination of the middle-class people.

Mr. ANDERSON. Might I make a suggestion as to what I can be helpful on here? I am professionally an economist, and in these political matters I am an amateur. You are a much better judge than I am of the ways of guiding the business of the Government and passing laws to accomplish such a result. I can not enlighten you on that.

If the questions could be limited to economic questions it might be better.

Mr. STRONG. I am not a politician; I am only a plain servant of the people, and have been for many years the servant of an agricultural group. I am not looked upon as compentent to be a politician.

I only want to point out this. Here we have branch banking starting in California and in several other States of the Union. An appeal was made to Congress that unless we widened the scope of the law to permit national banks to have branches where the States had branches we would hamper the national banking system upon which the Federal reserve system is based. So we passed the McFadden Act. Now it is said we will protect the national system by opening up the flap of the tent to the extent that they can have branch banks in the States that permit branch banks, but only in the cities where the parent

bank is located. That was apparently satisfactory at the time. But you can see it was not satisfactory to the men who want to put this system on the country.

Then they got chain banks and then this group banking system, thereby attempting to force branch banking, nation-wide, upon the country.

Mr. Pole, the Comptroller of the Currency, assures us that if he can put over this trade area proposition, just as we imagined when we passed the McFadden bill, he can satisfy all factions and hold them.

Mr. GOLDSBOROUGH. Say "I" and not "we."

Mr. STRONG. As I and the majority of the committee imagined, and the President of the United States imagined. He has that idea that he can hold them.

But the governor of the Federal Reserve Board said it means the ultimate success of the nation-wide branch banking system perhaps in 50 years.

So you can see what the trend is. We are now engaged in a stock gambling proposition among the banking systems. That is what this system is to be, to make money out of the manipulation of the joining of banks and groups, where it may aid this nation-wide branch banking. Do you agree with that?

Mr. ANDERSON. I do not think that is their aim. I know some of the men.

Mr. STRONG. I thought that until I saw the gentlemen from Minneapolis and St. Paul and until I got the word of a reliable banker that they expect to sell out to a New York group.

Mr. ANDERSON. I do not know about that.

Mr. STRONG. I will tell you personally who that man is, and you will believe his statement is true.

Mr. SEIBERLING. You know the position of the Comptroller of the Currency and the governor of the Federal Reserve Bank on this specific question of branch banking?

Mr. ANDERSON. Yes, sir.

Mr. SEIBERLING. We assume they represent the people of the entire country by reason of the positions that they hold, and you think we are correct in that assumption?

Mr. ANDERSON. They are officers of the Government.

Mr. SEIBERLING. You have been resisting their plan of branch banking in trade areas. Since we know the status of these men, without intending any offense of any kind, I would like to know your status.

Mr. ANDERSON. First, a citizen of the United States; second, a professional economist with knowledge of these matters.

Mr. SEIBERLING. I know that, but by whom are you employed?

Mr. ANDERSON. By the Chase National Bank of the city of New York.

Mr. SEIBERLING. This address of yours was put out in the bulletin of May 8, I take it, with the full knowledge and consent of the Chase National Bank.

Mr. ANDERSON. It was put out with the knowledge and consent of the Chase National Bank—let me say of certain officers of the Chase National Bank who knew I was putting it out. The directors knew nothing about it. There was no official action taken upon it.

Mr. SEIBERLING. You would not call a meeting of the stockholders of the Chase National Bank to give you the authority to put out a bulletin like this. From whom did you get the authority?

Mr. ANDERSON. I have a general authority from Mr. Wiggin to publish such a bulletin.

Mr. SEIBERLING. Then this view you express, while it is your personal view, is also the view of the bank?

Mr. ANDERSON. Mr. Wiggin answered that question yesterday. that is the view of the economist of the Chase National Bank.

Mr. SEIBERLING. Mr. Wiggin saw the address before you delivered it before the North Carolina Bankers' Association?

Mr. ANDERSON. Mr. Wiggin and other senior officers of the bank all had an opportunity to see it before that, but I doubt very much if he did see it.

Mr. SEIBERLING. Now, Mr. Anderson, did you not discuss with the officers of the Chase National Bank the policy you would pursue in reference to this proposition of the Comptroller of the Currency and the governor of the Federal Reserve Board?

Mr. ANDERSON. It is my regular practice in connection with bulletins of this sort to ask one of the senior officers of the bank, sometimes a vice president, sometimes the chairman of the executive committee, and on rare occasions, Mr. Wiggin, to look over the manuscript with me.

Mr. SEIBERLING. Did you do that in this particular case?

Mr. ANDERSON. In this particular case I did, but not with Mr. Wiggin.

Mr. SEIBERLING. I notice in the first paragraph of your article in speaking of trade areas, you said, "National banks located in one State could invade another State whose laws prohibit branches."

Mr. ANDERSON. That I understand to be the proposition.

Mr. SEIBERLING. As a student of banking, do you not know that from a constitutional standpoint the establishment in a State of a national bank by the Federal authorities is just as much an "invasion" of the State as would be the establishment of a branch bank there by Federal authority?

Mr. ANDERSON. Not in a practical sense, because it is a local man who organizes it, whereas the branch of a bank chartered in another State would be controlled by men in another State outside of the community.

Mr. SEIBERLING. You know, do you not, that the Supreme Court has held for more than a century that Congress was the sole judge of the wisdom with respect to the States in the United States where banking facilities should be set up under national authority and that no consent from the State was necessary or required?

Mr. ANDERSON. The question of congressional power I was not raising. I was raising the question of policy. I am not enough of a constitutional lawyer in the modern sense to know just what the courts have held there. I have read the statements that the comptroller made about that.

Mr. SEIBERLING. You said you believed in preserving State rights.

Mr. ANDERSON. I do.

Mr. SEIBERLING. That may apply to prohibition and a lot of other things; but do you not know that the Constitution of the United

States makes the Federal Government responsible for the coining of money and for the circulating medium, and expressly takes that right away from the State?

Mr. ANDERSON. For the coining of money, yes. On the question of bank notes, no. You have done that by congressional act by taxing State bank notes.

Mr. SEIBERLING. But the Constitution provides that no State can coin money.

Mr. ANDERSON. Yes.

Mr. SEIBERLING. And no State can counterfeit money. Do you not think that the banking business should be differentiated from these other things, when it comes to talking about State control?

Mr. ANDERSON. I would make a very sharp distinction between the coining of money and the running of a bank. I would regard the coining of money as a Government function, and the running of a bank as a private function.

Mr. SEIBERLING. Do you think, or do you mean by that that whenever the Federal Government, in the banking business, invades a State that is running counter to State rights?

Mr. ANDERSON. The term invasion there relates not to what the Federal Government itself is doing, but to what an institution chartered outside of the State is doing. That word invasion is perhaps ill chosen; but if a bank outside a State can come in against the will of a State and put a branch there, that is what I characterize as invasion.

But for the Federal Government, on the other hand, to authorize citizens of that State to charter a bank in a given town is not an invasion in the same sense.

Mr. SEIBERLING. Do you think the State should conduct the banking business of the country?

Mr. ANDERSON. No, I think private individuals, chartered by the States or by the Federal Government, should do that.

Mr. SEIBERLING. Not the States?

Mr. ANDERSON. No.

Mr. SEIBERLING. You do not think there should be a national banking system?

Mr. ANDERSON. I have expressed the opinion in this bulletin that the national banking system has been useful, that it has helped establish good banking standards throughout the country, and that it is desirable to preserve it.

Mr. SEIBERLING. On page 4 of your speech you state that "We do not need to make a revolution in the general banking system of the United States because of the conditions in small banks in stricken agricultural regions." Do you not think that the question goes deeper than that and should be approached from the larger point of view which has been expressed before the committee that the primary aim should be to extend to the general public, regardless of whether it is urban or rural, the same type of banking facilities?

Mr. ANDERSON. I am in favor of giving good banking facilities to every place, but I do not believe it is necessary to pass this legislation to do that. I do not think this legislation would touch that in general, but that local legislation and local remedies should be relied upon primarily for that purpose.

Mr. SEIBERLING. You do not think the branch banking system proposed by the comptroller in trade areas would reach these smaller regions?

Mr. ANDERSON. No, sir.

Mr. SEIBERLING. You do not think that group and chain banking would reach them either?

Mr. ANDERSON. I do not think it is doing it, with certain minor exceptions.

Mr. SEIBERLING. So you think there is no way of reaching them?

Mr. ANDERSON. I have indicated in the section on remedies in that bulletin ways of doing it.

Mr. SEIBERLING. Yesterday you heard Mr. Wiggin in answer to various questions asked by me, testify that the Chase National Bank had 7,000 correspondent banks; that many of these banks had failed in the last 10 years; that the relationship between these banks and the Chase National Bank was purely a business one; that it meant profit to the Chase National Bank; that they could do nothing through such a system to actually prevent failures. Do you agree with Mr. Wiggin in this respect?

Mr. ANDERSON. I do not think you have correctly got the full spirit of Mr. Wiggin's statement.

Mr. GOLDSBOROUGH. I understood Mr. Wiggin to say it was mutually advantageous.

Mr. ANDERSON. Will you allow me to answer that question about correspondent relations in my own way?

Let me say that Mr. Wiggin said to me, "Don't bother about what I said. Tell them what you think." I will tell you what I think about the correspondent bank relations.

Mr. SEIBERLING. I want your opinion.

Mr. ANDERSON. I am not giving Mr. Wiggin's opinion about it.

Mr. GOLDSBOROUGH. I do not think the economist ought to be asked to comment on what Mr. Wiggin said.

Mr. STRONG. He says he is going to give his own opinion.

Mr. ANDERSON. I hope you will not try to put me in opposition to my chief on any point. I have an affection for him, and he has for the 10 years that I have been in the Chase Bank stood with absolute loyalty to the original agreement with me, which was that he would never ask me to say anything I did not believe.

Mr. SEIBERLING. I am here representing the people of the United States, and you are here as a witness. What I want is your opinion and judgment.

Mr. ANDERSON. You shall have it. I just ask you as an act of courtesy to me not to put side by side what I say and what Mr. Wiggin says.

Mr. SEIBERLING. I have no desire to put you in conflict.

Mr. ANDERSON. Let me tell you what I think about correspondent relationship with respect to country banks.

In a Missouri town a few years ago there was a run on a bank in a town of about 30,000 people. A telegram was sent to the Chase National Bank notifying us of the run and asking for help. We knew the bank; we knew they were good; we knew the people.

Four minutes later a telegram went back to that bank saying, "We stand squarely behind you; we will lend you what you need. We are sending cash from a near-by correspondent bank." That was

signed "Albert H. Wiggin, president; Samuel H. Miller, senior vice president."

They put that telegram in the window of the bank and it stopped the run.

In a very few minutes from a near-by town an automobile came in with the cash. We made an arrangement with a Kansas City bank to send them more down. That kind of thing we have done many times.

What do we do to keep them from failing? What do we do to avert the causes of failures? Almost every time we make them a loan we put questions to them. We ask, in substance, "What are you going to use this money for," not always, but in many cases. We do not ask such questions of strong banks, which borrow infrequently and moderately, but we ask many questions when we think it necessary. "What other facilities have you?" We study their whole picture. We help them to figure out their problem, holding them back sometimes when they are going too far.

Mr. SEIBERLING. You do not say anything about collateral.

Mr. ANDERSON. I will tell you about the collateral.

Mr. SEIBERLING. I did not want you to forget it.

Mr. ANDERSON. I will get to the matter of collateral. They constantly ask us for credit information, and our whole credit department is at their service every day. We tell them, "You can safely let this man have money," or, "Your customer can safely take this credit," or "In this case be cautious."

We watch the details of their business in many ways. A correspondent bank in San Francisco was sending us remittances which got to us too late for us to give them interest credit. We have to get to the clearing house at 10 o'clock in the morning. They lost interest for 24 hours. If they had got there a couple of hours earlier they would have got that interest.

So we studied the mail train schedules, and wrote them and told them if they put these items into the mails 2 hours earlier we could give them interest credit 24 hours earlier. We render innumerable services of that kind.

Now, as to the collateral. Here is an actual case. There was a note for $104, signed by John Wilhite—that is a fictitious name—and Lizzie, his wife, secured by chattel mortgage on Molly, Molly being a mare mule, 16 hands high, and broken to single and double harness. That was part of a stack of collateral about that high [indicating], the biggest note being for $3,000, the next for $700, and all the rest under $300.

Mr. SEIBERLING. What was the equity?

Mr. ANDERSON. This was several years ago, this particular loan. But we have similar paper frequently.

Mr. SEIBERLING. I know; you have gone into the details about Molly. Tell us what the equity was.

Mr. ANDERSON. The loan was $100,000 and the stack of collateral was $125,000.

Mr. GOLDSBOROUGH. You mean the face of the collateral?

Mr. ANDERSON. Yes.

Mr. SEIBERLING. You consider that kind of collateral from a great many debtors the very best kind of collateral, do you not?

Mr. ANDERSON. The loan would have been more easily manageable and the collateral would have been better collateral in bonds of the United States Steel Corporation.

Mr. SEIBERLING. There may be some inconvenience in collecting it, but you consider that very good security, where you get a large number of small loans?

Mr. ANDERSON. We would have had a lot of trouble collecting those small loans.

Mr. SEIBERLING. I note you state in substance in your address that small banks in rural communities can accomplish diversification by means of their correspondent relations with great banks in great cities.

You go on to say:

> They have refrained from putting all of their resources into local loans and they place part of them through their correspondent banks into open market commercial paper or readily marketable bonds, or call loans on the stock exchange, or acceptances, or deposit balances, with their correspondent bank, to build up a borrowing equity.

That system of banking takes money from the localities and puts it in the metropolitan centers, does it not?

Mr. ANDERSON. It takes money from the locality in ordinary times when they have an excess and it gives them back a greater amount in time of seasonal need or in time of crisis. I will give you some figures which I collected, and, with the permission of the committee, I will put this in the record.

I asked one of the officers of the bank to get me figures for small banks, picked at random, with reference to what happened in 1920 and 1921 in the relationship between our loans to those banks and their balances with us.

He went across the country, on the southern end, from ocean to ocean, and then he went up in the western part of the country from Mexico to Canada, and he left out all the big places.

He took at random 59 State and national banks—there were a few in Ohio and Indiana; but most of them were west of the Mississippi or in the South.

In January of 1920 the country banks were pretty flush, their loans were small, and these banks had $1,426,400 in balances with us and they were borrowing from us only $459,200.

Mr. SEIBERLING. That was in January, 1920?

Mr. ANDERSON. That was in January, 1920. By October of 1920 the crisis came on; the loans had gone up $1,200,000 and the deposits had gone down $200,000. So they were now borrowing $450,000 more than their deposits amounted to. And by the following January the loans were $951,300 and the deposits amounted to $759,200.

The change in the year was that the deposits were cut in two and the loans were more than doubled, and they got out of us at the time they needed it a lot more money than they originally put in there.

Mr. SEIBERLING. What rate did you get for that money?

Mr. ANDERSON. We gave them—at that time the rates were very high, but the country bank gets a lower rate as compared with some other borrowers. I can not answer that question definitely as to the rate.

Mr. STRONG. About what was it?

Mr. ANDERSON. I would say some of them, at the time we were charging some nonbank customers 8 per cent, I think some of them

may have paid 7 and more paid 6. In general a bank gets a good rate from another bank. I am not sure about the rates, because it was a long time ago.

(The statement above referred to is as follows:)

An examination of credit balances kept with us by 59 State and National banks situated in the South from coast to coast and in the West from Mexico to canada (as far east as the Mississippi Valley [1]) reveals the following:

	Balances	Loans
January, 1920	$1, 426, 400	$459, 200
September, 1920	1, 215, 800	1, 057, 500
October, 1920	1, 221, 200	1, 677, 800
November, 1920	1, 091, 800	1, 346, 400
December, 1920	754, 200	801, 500
January, 1921	759, 200	951, 300

The statistics do not include credit balances and borrowings of banks in the larger centers. Otherwise, the banks were picked at random.

Mr. SEIBERLING. You heard Mr. Wiggin say yesterday they always got collateral?

Mr. ANDERSON. Almost always. May I express the opinion as an economist that the only man who ought not to put up collateral, apart, perhaps, from very small personal loans—the only man who ought not to put up collateral, is the man who is in business, who has stocks of goods and "work in process." He can not put them up as collateral, because that would interfere with his operations; but the man who has the kind of collateral that he can put up, ought to do it.

Might I, in further answer to the question about 1921 say that Mr. Sidney Anderson's joint committee of agricultural inquiry brought out some very interesting facts about that, one of them being this, that in the period from January 1920 to July, 1921 New York lost to the outside country, $1,735,000,000, net.

Mr. SEIBERLING. What was the last date?

Mr. ANDERSON. That was from January, 1920 to July, 1921.

Mr. SEIBERLING. How much did you get back last summer?

Mr. ANDERSON. When I say "lost" I do not mean it was a money loss. I mean more went out of New York than came in. New York paid out to the rest of the country $1,735,000,000.

(Thereupon, the committee took a recess until 2 o'clock p. m.)

AFTER RECESS

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

STATEMENT OF BENJAMIN M. ANDERSON, JR.—Resumed

The CHAIRMAN. The committee will come to order. When the committee recessed, I believe you were questioning Mr. Anderson, Mr. Seiberling.

Mr. SEIBERLING. I have a few more questions here. Mr. Anderson, there has been a great deal of talk before the committee with reference to diversity of loans.

Mr. ANDERSON. Yes, sir.

Mr. SEIBERLING. Now, if you had a branch system such as suggested by the comptroller, you would have much greater opportunity for diversification of your loans than you have in the unit banks?

[1] Including a few in Ohio and Indiana.

Mr. ANDERSON. Not if the unit bank is run properly. You would have in a community, with diversified interests, plenty of opportunity, of course, even for a local bank; and you can have adequate diversification, through your big city correspondent, if you can not get local diversification.

Mr. SEIBERLING. That is not the question. Would there not be more opportunity for diversification of loans under the comptroller's suggestion for branch banking in trade areas than under the unit system?

Mr. ANDERSON. Not if the unit bank makes use of the facilities offered by its correspondent.

Mr. SEIBERLING. What do you mean by that?

Mr. ANDERSON. I mean the unit bank can diversify its loans through buying outside commercial paper, acceptances, making loans on call, buying bonds, plus the local loans it makes.

Mr. SEIBERLING. Your contention is that the chief means of getting diversification of loans would be through the correspondent in the metropolitan center?

Mr. ANDERSON. If it was a 1-crop town; yes. There are some towns where the banks can get all the diversity of activities right at home. Even in those 1-crop towns or small cities, they can get it through the correspondent.

Mr. SEIBERLING. It is necessary to have diversification of loans; is it not?

Mr. ANDERSON. Yes, sir; absolutely.

Mr. SEIBERLING. Therefore, if they have a community where there is no diversification of paper offered, the only means of getting it is through the correspondent bank in the metropolitan center?

Mr. ANDERSON. That is the best means.

Mr. SEIBERLING. That would not be true if it was a branch of a parent bank located in a metropolitan center, closer to the community, in a trade area, for instance, like the headquarters of the different Federal reserve banks in the country?

Mr. ANDERSON. In most cases that is true, and yet there are some Federal reserve districts that can not sufficiently diversify.

Mr. SEIBERLING. Name one.

Mr. ANDERSON. In 1921 the Dallas district, as a whole, had it been self-contained, would have gone under. The Dallas Federal Reserve Bank was down to within 2 per cent of its own gold reserve. It had to lean on the rest of the country for liquidity.

Mr. SEIBERLING. What relation has that to the subject we are talking about?

Mr. ANDERSON. Well, the district was caught by cotton and other things that were frozen, and it has to lean on the outside for temporary help and diversification.

Mr. SEIBERLING. Then the southern bank that is in territory where cotton is the chief commodity, in order to be safe, under your theory of banking, would have to make a great many loans through its correspondent in the metropolitan center?

Mr. ANDERSON. Yes, sir. I want to say that, in general, agriculture needs to learn one thing which business has learned. The weakest point in agricultural financial technique comes from this matter of lack of liquidity or lack of something they can turn into cash. The farmer and country banker, to a too great extent, look to land as the basis of credit.

If you will contrast the policy, say, of the United States Steel Corporation and the Utah Copper Co. with the policy of agriculture in 1920, the thing becomes striking. Steel and copper went high in price during the war and the post war boom, and broke violently in the period immediately following, the same as agricultural commodities. But whereas the farmer used all of his profits in the boom period to buy more land, the two great business corporations used their profits in paying off debts and building up reserves in marketable securities and cash, so that when the crisis came both the United States Steel and the Utah Copper Co. kept on paying dividends and were perfectly tranquil through that whole trouble and on a basis far better than before the boom, while agriculture was deeper in debt than before the boom.

Mr. BRAND. I think you have sized that up correctly as far as Georgia is concerned.

Mr. SEIBERLING. Mr. Anderson, you can answer these questions in a much shorter way if you desire to do so. However, I do not want to tell you what you must do. It is a fact, then, that a unit bank, in a territory where there is no diversification, must do a large amount of business in the way of securing loans and making customers through the correspondent metropolitan bank?

Mr. ANDERSON. Yes, sir. During the season when it has surplus funds, it sends them to the city, and when the season comes when it needs the funds for local accommodation it brings them back.

Mr. SEIBERLING. Do you not think the Dallas district, if you take the Dallas Federal reserve district, has sufficient diversification? Do you not think or do you not know that they have a great many public utilities and manufacturing institutions there?

Mr. ANDERSON. The experience of 1920 did not indicate it.

Mr. SEIBERLING. Have you any statistics to show there is not great diversification in the Dallas Federal reserve district?

Mr. ANDERSON. No, sir. I would recognize there is diversification there, but I know the situation that existed in 1921.

Mr. SEIBERLING. There would be much more diversification if you had a parent bank with branches in that trade area than for the individual local bank?

Mr. ANDERSON. I do not think so. I do not see any reason why it should be.

Mr. SEIBERLING. You think the individual——

Mr. ANDERSON. I see what you mean. A bank covering the whole district could diversify more than a bank in one town?

Mr. SEIBERLING. Yes.

Mr. ANDERSON. Quite true.

Mr. SEIBERLING. In that respect the branch bank would be much superior to the unit bank?

Mr. ANDERSON. Yes; to the unit bank without a city correspondent, but not to a unit bank with a city correspondent.

The CHAIRMAN. In other words, Mr. Anderson, if Mr. Seiberling will yield——

Mr. SEIBERLING. Certainly.

The CHAIRMAN. You would have us infer that a country bank would be as well or better served under the correspondent system than acting as a branch?

Mr. ANDERSON. I believe that.

The CHAIRMAN. You believe it could give the territory in which it is located better service?

Mr. ANDERSON. Assuming a good bank and a good banker.

The CHAIRMAN. If a correspondent banker situated there relies on the city correspondent to advise him in regard to his investments, he can be a mediocre man if he will consult his correspondent city bank?

Mr. ANDERSON. Yes; and there is a constant consultation about all kinds of banking policies. It would amaze you the questions put up by bank correspondents and the number of things they ask us to do for them, things which, by the way, do not always relate to banking, strictly.

The CHAIRMAN. Do you think the country banker understands that relationship is open entirely to him? Is he not reluctant to put these various determinations before his city correspondent bank—these decisions he has to make frequently on a moment's notice? Is he not rather handicapped on account of distance?

Mr. ANDERSON. He does not usually consult us about local loans. He runs his own bank.

The CHAIRMAN. You are dealing with surplus funds whereby he can secure diversification in his loans?

Mr. ANDERSON. Yes, sir, and he will very commonly consult us. He will ask us to pick out paper for him and advise him what bonds to buy, etc.

Mr. SEIBERLING. Since he has done that a great deal, the local bank's money is invested in paper you recommend and which the correspondent bank knows about and the local bank does not. Does not that greatly increase the domination and control of money and credit by the correspondent bank in the metropolitan center?

Mr. ANDERSON. No, sir; if we do not treat them right the Central Hanover will and the Guaranty Trust will, and there is constant competition for these correspondent bank accounts.

Mr. SEIBERLING. But they can not leave your bank until they get their paper liquidated that they purchase through you; they are dependent on you to liquidate the paper?

Mr. ANDERSON. The paper is the obligation of some corporation. It has a national market. It is sold through note brokers of national standing. We do not have to collect it for them. We will do it for them if they ask.

Mr. SEIBERLING. But you know about the paper and they do not.

Mr. ANDERSON. But the matter of collecting on the paper is a simple matter.

Mr. SEIBERLING. It is collected through your bank?

Mr. ANDERSON. Yes; but they could change to another correspondent over night.

Mr. SEIBERLING. Now, Mr. Anderson, will you not admit that a realtionship of that kind does give you to a greater or less extent, domination over that community bank?

Mr. ANDERSON. No, sir; I will emphatically deny that it gives us domination over any correspondent bank.

Mr. SEIBERLING. I note your statement, "I can not sympathize with the view"——

The CHAIRMAN. Before you get to that, may I ask this question?

Mr. SEIBERLING. Yes.

The CHAIRMAN. In connection with this relationship which you suggest enables the city banks to advise the country banks, which advice you say is freely given—and I know it is and quite freely sought after by particular banks—I recall some few years ago where a New York publishing house—Harper & Bro., for instance—were issuing large amounts of commercial paper which was sold through a reputable note house in New York, Charles Hathaway & Co.—and country banks were advised by the city correspondent banks to buy that paper freely and many of them did buy that paper freely.

It turned out subsequently that Harper & Bro. were financially embarrassed and they went through a reorganization. It developed afterwards, I think, in the information that came out, that the New York bankers had known a year previous, that Harper & Bro. were in a condition where they were not strong financially and they were called upon to liquidate and they liquidated through the process of selling the paper through these commercial houses, and the result was that the failure really occurred a year before it was announced, and these local banks purchased this paper wholly in ignorance of that situation.

This is what happened: Very much to the surprise of the country banks that held that paper, there was an old mortgage of $850,000 that everyone had lost sight of, which was held by J. P. Morgan & Co.

I mention that as one of the relationships that exist between city correspondent banks and country banks. Might it not be that the city correspondent banks might use country banks in that manner again for the purpose of unloading? Of course, I realize it would be subject to great censure.

Mr. ANDERSON. I do not know the facts about that case, but I know how the thing has been done in two institutions. I watched it for a couple of years in the Bank of Commerce when Mr. Christensen handled the commercial paper. He handled for that bank and its correspondents several hundred millions of commercial paper in one year without loss to himself of anyone else. I know how it is handled in the Chase. We are scrupulously careful about that.

I do not know the facts about the case you mentioned, Mr. Chairman, but I do not think it is in any way a representative case. I came to Wall Street 12 years ago with the background of a countryman—a Missourian, first from the bluegrass region and then from university work—with a great deal of distrust, and taking a great deal of precaution as I went along to guard myself so that I would be free to retain my academic liberty. As I have seen bankers and brokers in the street dealing with one another and with their customers, my confidence in those men has gone up and up. Most of the business goes on over the phone on the stock market and on the foreign exchange market. They could not do it if there was not good faith. I have seen them hold to their word and take their licking without a whimper. The same man might beat his wife that night. That I do not know. But he keeps his word.

In the relationship between the city and country banks that same situation applies. Let me give you an instance. The Bank of Bermuda has been a correspondent with the Chase for 50 years. When I was with the Commerce, I tried to get them away from the Chase. They said, "They have been so good to us for 40 years that if we left them now you would not want us." They are scrupulously honest in their dealings.

That relation lasts because it is handled right.

Mr. BRAND. Was that $850,000 mortgage on real estate?

The CHAIRMAN. It was a first mortgage on the property of Harper & Bro.

Mr. BRAND. Supposing a country bank tells you to buy $100,000 worth of acceptances or some sort of security or commercial paper; how could there be any mortgage on that character of investment without your knowing it?

Mr. ANDERSON. The credit department that passed on that paper ought to know about any mortgage on the property.

Mr. BRAND. Have you any laws in the State of New York that permit you to have a mortgage on that class of paper?

Mr. ANDERSON. It was not a mortgage on the paper. That is an unsecured note. It was a mortgage on the property of the maker.

Mr. BRAND. Is there any law in New York that would give a lien on acceptances or commercial paper or securities that you might recommend to country banks to buy?

Mr. ANDERSON. Not on the paper; no. It was simply that there was a prior obligation on the real estate of the company.

Mr. BRAND. The case mentioned by the chairman was?

Mr. ANDERSON. In that case the negotiable paper is clear.

Mr. BRAND. One other question. How could your bank dominate a country bank, though it had placed money with you to buy different securities, unless that bank owed you something?

Mr. ANDERSON. We could not. If they owed us something and were handling themselves well, we could not. The only case in which the city bank could dominate a country bank is where a note of that country bank matures and it can not be paid. Then a creditor can make terms.

Mr. BRAND. If he does not owe you anything——

Mr. ANDERSON. He can not be dominated. The great difference between the system of correspondent banks and branch banks is this: Under the branch bank system all decisions as to the flow of funds between the head office and the local branches are made at the head office. Under the correspondent system all such decisions are made by negotiations between principals, one of whom represents the local people.

Mr. SEIBERLING. You say they seek advice from you continuously?

Mr. ANDERSON. Yes; and if we give them good advice, they ask for more.

Mr. SEIBERLING. You have taken occasion to step aside——

Mr. ANDERSON. We ask them for advice often, also.

Mr. SEIBERLING. You have taken occasion to step aside and eulogize Wall Street. Why is it that the country has a prejudice against Wall Street if all these things you say are true?

Mr. ANDERSON. Well, I must say that I was brought up with that prejudice myself. Wall Street has done some things that deserve reprobation. There have been, at times, buccaneers on Wall Street; there have been times when Wall Street really deserved severe censure. I think the country, as a whole, does not know Wall Street as well as I do. If it did, I think it would have more respect for Wall Street.

Mr. SEIBERLING. Well, we have not time to go into that. You are working with Wall Street and you are not asking any favors from Wall Street. I note in your statement you say:

I can not sympathize with the view that it is necessary to pass unsound legislation for the purpose of giving supremacy to the national banking system over the State banking systems, that banks would be compelled to drop their State charter and take out national charters.

In the problem before us, it is not a question of whether the national banks should be paramount over the state banks, but rather does not the public welfare demand that Congress under its unquestionable constitutional powers and responsibilities should not at this time step in and take charge of the entire banking situation, not with a view of driving the state banks out of business, but with a view of giving the public a sounder and safer system of banking? Is not that the main consideration?

Mr. ANDERSON. The thing I referred to there was the suggestion brought out in the comptroller's statement in which he indicated he was surrendering the theory of parity of State and national systems and wanted to establish the superiority of the Federal system. I was referring to that particular proposition.

Mr. SEIBERLING. Do you not think in a Government as big and strong as ours, that the National Government should have a supremacy in the banking business of the country?

Mr. ANDERSON. No, sir; I think any country as big and diversified as ours should have as much local banking as is consistent with hanging together.

Mr. SEIBERLING. The national banking system gives local banking, does it not?

Mr. ANDERSON. It would not if you made it spread over State lines and cover great trade areas through branch banking.

Mr. SEIBERLING. I note that you attempt to show that branch banking systems are subject to the same failures as that of unit banks and subject to adverse economic conditions. You gave us examples of the failures of 1 bank in Denmark, 1 in China, and 1 in Italy.

Mr. ANDERSON. Several in Japan, and one in Austria. There have been others—in Canada, for instance.

Mr. SEIBERLING. You did not give the name of the Canadian bank.

Mr. ANDERSON. The Home Bank was one.

Mr. SEIBERLING. You know, of course, that this bank failed solely by reason of the criminal mismanagement of its officers and that practically the entire board of directors were convicted and sent to the penitentiary. You also know, do you not, that this bank had no government supervision, such as we have?

Mr. ANDERSON. I did not know that it was due to criminal mishandling. I know it was greatly aggravated by economic conditions.

Mr. SEIBERLING. If this situation be true you would change your opinion as to the Home Bank of Canada?

Mr. ANDERSON. I would have to know the facts.

Mr. SEIBERLING. Assuming what I say is true, would you adhere to your opinion?

Mr. ANDERSON. If it is true that it failed solely because of crime, then it did not fail because of any other reason.

Mr. SEIBERLING. You do not put the failure of a bank for criminal mismanagement in the class of banks that fail for economic reasons, do you?

Mr. ANDERSON. No, sir. I did not list that as one of the causes, because I think the testimony, as brought out by Governor Young,

put that as a minor influence. Did not Governor Young list that as a minor reason for failures?

Mr. BRAND. It is lower down the list.

Mr. SEIBERLING. I also note that you refer to the failures of 236 banks which belonged to the chain system. Do you know that chain banking has met with almost universal condemnation from witnesses appearing before this committee and can not be placed in the same class as branch banking?

Mr. ANDERSON. I do not believe the difference is anything like as great as many people suppose. I believe the Florida and Georgia chain would have failed if there had been a holding company holding the stock, and would have failed if there had been a central office with branches.

Mr. SEIBERLING. What is your opinion of the economic future of rural banking if carried on indefinitely under present conditions?

Mr. ANDERSON. I think many of the small banks in the small villages will dry up and go under: that the more sizable banks in the substantial towns of four and five thousand people will survive and do well.

Mr. SEIBERLING. Do you not know, Doctor, that there are hundreds and hundreds of small banks in the United States in rural communities that are organized by the people in those communities just to furnish banking facilities and these banks are a constant source of worry to the stockholders and directors and that they would be glad to have a large bank in a metropolitan center take those banks over as branches and relieve them from the responsibility of maintaining banking facilities in the community?

Mr. ANDERSON. And taking cognizance of that, I recommend that certain States pass legislation to take care of that.

Mr. SEIBERLING. That the States should do that, and not the Federal Government?

Mr. ANDERSON. I believe the States should do it. It would simply bring about a great disturbance and a great shifting——

Mr. SEIBERLING. You advocate the Federal Government going entirely out of the banking business?

Mr. ANDERSON. I recommend that the Federal Government pass a law permitting national banks to have the same branch banking powers that State banks have, and that in each State the States take it up as a local problem.

Mr. SEIBERLING. How can you justify the statement that you are afraid of giant branch banking systems with enormous capital ranging over trade areas which may equal Federal reserve districts in size, when the Chase National Bank, with its tremendous size, being probably the largest in the world, has its branches in New York and abroad, its securities companies with their branches throughout the United States and abroad, and its American Trust Co., with 34 offices in this country and 66 abroad, together with the American Express Trust Co. You cover the world——

Mr. ANDERSON. No, sir; we do not cover the world with branches. I am not afraid of giants, but I want the giants confined to giant places.

Mr. SEIBERLING. You state that in your statement.

Mr. ANDERSON. I said giant branch banking systems ranging over Federal reserve districts. I want the big fish to stay in the rivers

and the oceans and keep out of the creeks. The Chase National Bank has branches only in the city of New York and a few out in the world outside of the United States.

Mr. SEIBERLING. It is inconceivable to me that the Chase National Bank, which unquestionably operates successfully these various branches of the bank and the affiliated companies all over the United States and abroad, could not operate successfully branches in trade areas.

Mr. ANDERSON. Well, we would not like the job; the difficulty increases very greatly with distance. In New York we had no branches until 1921, and then only eight in the city. We worked a long time on that, studying how to deal with them, where we could see the men every day and sit with them in committees two or three times a week and with easy telephone communication. You can know them personally and you can get the feel for them. But the proposition of administering branches at a great distance is exceedingly difficult.

In the West Indies, in 1920, I was talking with the branch manager of one of the Canadian banks. This was early in 1920, in February. He said, "I made a loan of $50,000 on sugar a little while ago. My instructions are that on a loan over $2,000 I have to refer it to the home office." He said, "That is not the way to do business. The head office protested and I wired back and offered my resignation. The head office stood for it." At the time the loan was made sugar was selling at 25 cents and the sugar was 2 cents in the autumn following. I do not know whether they wired for his resignation in the autumn or not. The problem of keeping the proper balance between local initiative and head office responsibility is terrific.

Mr. SEIBERLING. That would not be true of the Federal reserve district.

Mr. ANDERSON. They cover considerable distances. One of the California bankers—I hope you will not ask for names——

Mr. SEIBERLING. I will not.

Mr. ANDERSON. One of the California bankers told me that he had a branch in a city some distance away, that was in charge of an excellent man to whom he gave a free hand. He said, "What I will do if that man dies, I do not know. How I can get a satisfactory man to replace him, I do not know."

Mr. SEIBERLING. You will concede that branch banking in trade areas, such as the comptroller suggested, would be injurious to a bank like the Chase National Bank?

Mr. ANDERSON. I am unable to say that. If we went out in these districts and put our branches out there we would probably lose a lot of correspondents, but the fact that they consolidate does not make the necessity of correspondents any less.

Mr. SEIBERLING. The main bank would have to have a New York correspondent, but you would not have all these unit banks to do business with.

Mr. ANDERSON. We might have less correspondents and more deposits—bigger deposits—and probably less detailed business to take care of.

Mr. SEIBERLING. Now you appreciate the fact that at the present time any industrial company or utility company that wants a large sum of money has got to go to New York to get it?

Mr. ANDERSON. No, sir.

Mr. SEIBERLING. I am talking about a large sum of money—$25,000,000.

Mr. ANDERSON. Chicago can swing that easily, and St. Louis could, probably.

Mr. SEIBERLING. They go to New York, do they not?

Mr. ANDERSON. We try to get them to come to New York, but Chicago has a lot to say about that.

Mr. SEIBERLING. The printers of New York print all the documents?

Mr. ANDERSON. You mean the American Bank Note Co.?

Mr. SEIBERLING. Yes.

Mr. ANDERSON. They do a lot of it.

Mr. SEIBERLING. And when a trust company registers the stock, an engraver in New York engraves the bonds?

Mr. ANDERSON. But that is done also in other places.

Mr. SEIBERLING. But you know the reorganizations handled in New York all took place that way—a New York lawyer handles all of that business there in New York.

Mr. ADNDERSON. That situation——

Mr. SEIBERLING. You can answer my question, can you not?

Mr. ANDERSON. That is so much less true than it was 20 years ago.

Mr. SEIBERLING. It is true to-day.

Mr ANDERSON. I do not think it is so true to-day; no, sir.

Mr. SEIBERLING. In the reorganizations at New York, New York lawyers handle those reorganizations?

Mr. ANDERSON. In a New York reorganization, yes; but suppose it is handled at Chicago?

Mr. SEIBERLING. Then a Chicago lawyer will handle it.

Mr. ANDERSON. Yes.

Mr. SEIBERLING. Now, if you had the concentration of capital in the chief cities of the Federal reserve districts, those lawyers, those printers, those engravers, and other people engaged in that business, in those Federal reserve districts, would have an opportunity to do some of this business?

Mr. ANDERSON. There might be more of that. This matter of engraving and printing I do not know about.

Mr. SEIBERLING. Well, I could mention half a dozen more things that are contolled by reason of the location of the reorganization in the financial center. I have been through it and know all about it, and you know all about it.

Mr. ANDERSON. When you are talking about reorganizations, you are not talking about commercial banking. You are talking about investment banking. That is a separate line of business.

Mr. SEIBERLING. You will admit that the branch banking system as recommended by the Comptroller of the Currency, would decentralize money and make probably 20 or 30 large centers? You believe that, do you not?

Mr. ANDERSON. I do not think so. I can see some change, possibly.

Mr. SEIBERLING. What is your objection to it, if you do not see any of these things?

Mr. ANDERSON. My objection is I do not think it would be good for the country. I am not speaking for the Chase National Bank. I am speaking as an economist and as a citizen.

Mr. SEIBERLING. And the fact you are an employee of the Chase National Bank has no influence upon your position?

Mr. ANDERSON. No influence upon my statement here. I am expressing an opinion I expressed 11 years ago, before I entered the employ of the Chase National Bank.

The CHAIRMAN. You said that this system that Mr. Seiberling is referring to is not pertinent to the subject of this study. Do you not think it is pertinent to the subject of group banking, when the Chase National Bank has a group of subsidiary operations in which they originate and distribute securities and do an investment banking business? Practically all the large New York banks now have affiliated with them groups to handle the various kinds of banking and underwriting such as Mr. Seiberling refers to, and the sale of securities.

Mr. ANDERSON. Now, the question is whether more or less of that would be done in New York if you have these groups or if you have branch banking. I would say that the amount of it that any section of the country can do must depend upon the final consumer, and has to depend on the volume of savings in that community, generally. How you can build up a big securities business in a rural section, where the farmer, instead of being an investor, is frequently a borrower. I do not know. At the present time the securities business is a country-wide business. Any issue of any sort might originate in New York or Chicago or St. Louis, or other financial center, and a syndicate to dispose of it might be formed in any great city. If it is a big issue bankers all over the country are interested.

Mr. SEIBERLING. But all they make out of it is a little rake-off or commission.

Mr. ANDERSON. It depends on whether they are in it in the beginning or simply as distributors. There are groups in the syndicate in almost all important centers, when big issues are involved.

The CHAIRMAN. We can recognize that New York is organized to do the kind of business that Mr. Seiberling referred to. They are equipped in their particular line to do that business. They do originate and do reorganize and do bring out original issues and do distribute. They make these bankers' agreements and act as managers and frequently associate with them, in some capacity, banks from all over the country. But New York is particularly rigged up to do that particular business and it is a big part of New York's banking, and a synchronization of New York banks with the outlying district banks is a part of that, and a little part of that is the stock exchange rules and regulations, and the places in which they have to be printed. For instance, the stock exchange have to conform to a certain regulation that the printers in New York can understand, and so the general trend of reorganizations, which are concentrated in New York, is to accept all the facilities in New York. Does not that, in itself, tend to bring this business to New York, as a center?

Mr. ANDERSON. We do more of it than anybody else. However, we do not originate all of the things. Many times things originate in Chicago and are offered to us and we are invited to come in.

Mr. SEIBERLING. Under the branch banking system, St. Louis and Chicago would become greater financial centers, and you would get less of that than you do now?

Mr. ANDERSON. I do not see that. At present the St. Louis banks have a great deal of distribution. They have the local things, and we sell to them things for distribution.

Mr. SEIBERLING. I have just one more question that arises out of a newspaper article I read last night. The Postmaster General is recommending, according to the paper I read, an increase in the limit of deposits in the postal savings from $2,500 to $25,000. In view of that, I ask you, as an economist and speaking as an expert, in view of the fact you have no scheme or plan by which banking facilities can be extended to the remote parts of the country if you will not agree that all people are entitled to some banking facilities, according to their necessities?

Mr. ANDERSON. It is desirable to have them.

Mr. SEIBERLING. In view of that fact, do you think it would be advisable to expand the powers of the postal savings system slightly so as to give limited banking facilities in these remote rural districts?

Mr. ANDERSON. You have addressed to me a complex question. You say "In view of the fact that I have no plan." I venture to suggest I have a plan that I have offered in my section on "Remedies."

In reference to the Postal Savings System, I do not know enough of its actual workings to express an opinion. I do not know, for example, what the present limit is. I would say, in general, I would prefer to have the thing worked out by private enterprise rather than have the Government do any more than imperatively necessary.

The CHAIRMAN. You referred to the statement of the Comptroller of the Currency here a few moments ago in which you analyzed his suggestion as more favorable to the national system than to State banks. I am referring to his recommendation of the extension of branch banking to trade areas which might, if carried out, place State banks at a disadvantage in competition with national banks. You recall the statement?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And you indicated that the State system is probably as good and should be given at least an equal chance.

Mr. ANDERSON. I admit the superiority of the national system as a whole. In some of the States, I think the State system is euqally good.

The CHAIRMAN. In that connection, I should like to call your attention to some evidence presented the other day. These figures are approximately correct. Since the 1st of January, 394 banks have failed in the United States, of which 36 were national banks and 358 were State banks.

There might be reasons for that, but on the face of it, it would seem to indicate that more State banks were failing than national banks. I recognize the fact, however, that there are fewer national banks than State banks.

Mr. ANDERSON. The deposits of the national banks average much larger.

The CHAIRMAN. Whether that is an indication that national banks are better operated or better supervised or more to be entrusted with the people's money I do not know.

Mr. ANDERSON. I think it means that national banks are larger than the banks that have been failing. The bulk of the banks that have been failing have been very small banks, not large enough in capital to get a national charter. The States that have been hit hardest are the States with the very small banks.

The CHAIRMAN. Inasmuch as the banks that are failing are largely State banks, would you think that that was a dangerous situation in the country, or perfectly normal?

Mr. ANDERSON. I am afraid it is a situation that is water under the mill.

The CHAIRMAN. In other words, you think it is a cleaning-up process of the conditions after the war?

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. And that it will result in a good condition?

Mr. ANDERSON. Yes, sir; but it is terribly painful while it is going on. One thing again: The disappearance of the village—and I think the figures of the census so far available show the small village is going at an alarming rate——

The CHAIRMAN. I think the full census reports when they are available will give us a clearer understanding of that. There is a general indication from the figures thus far available, that that is the case.

Mr. ANDERSON. I think the microscopic bank—perhaps I should not use that expression—the very small bank, which is always a State bank not large enough to get a national charter, will experience some further trouble.

The CHAIRMAN. Judge Brand referred yesterday to the conditions in Georgia where whole counties were without banking facilities, producing a distressed condition, where banks have either gone out of business or failed, and the people in that immediate community are not in possession of banking facilities.

You recited this morning, quite in some detail, the situation as regards branch banking in England, indicating that in towns of several thousand population, these branch banks are only open from one to three days a week. I wonder whether it indicates in this country, which is a newer country than England, that because of the fact that small communities are being eliminated due to good highways, mass production, consolidation of energy, etc., we are getting to that point in the United States where those districts may have to be served in the same manner as in England. Would you think that would be the condition we are approaching here?

Mr. ANDERSON. There might be localities where that would be the best that could be done. Certainly the unit bank in a very small and dwindling village is a needlessly expensive thing. If they could get something more economical and give the people some banking facilities that would be safe; it would be better. However, I think it has got to be worked out not by a general rule, but locally by the local interests.

Mr. BRAND. When did you leave Missouri and go to New York?

Mr. ANDERSON. I first went to New York from Missouri in 1910 to go to Columbia University, where I was first a fellow and then a teacher, and then I spent five years as a teacher in Harvard University, and came back to New York in 1918.

Mr. BRAND. Were you connected with the banking business in Missouri?

Mr. ANDERSON. No, sir; I was a teacher until 1918.

Mr. LUCE. Mr. Anderson, you are the economist of the Chase National Bank?

Mr. ANDERSON. Yes, sir.

Mr. LUCE. And are the author of the material that appears in the Chase Economic Bulletin?

Mr. ANDERSON. Yes.

Mr. LUCE. The bank is good enough to keep my address on its mailing list, and I may show the value I place upon this bulletin by saying that it is one of the few publications of which I keep a file for the purposes of reference. You have a high standing in the economic world and your words carry weight. May I ask you how many copies are circulated of the Chase Economic Bulletin?

Mr. ANDERSON. I think of that edition between fifty and sixty thousand.

Mr. LUCE. And what is the general nature of the mailing list?

Mr. ANDERSON. It goes to stockholders and depositors and to others who are interested who ask to be put upon the list, and some others we pick out that we want to have on the list.

Mr. LUCE. It goes also, I imagine, to editors of financial publications?

Mr. ANDERSON. Advance copies; yes, sir.

Mr. LUCE. And to financial writers generally?

Mr. ANDERSON. When they ask for it.

Mr. LUCE. But it has a considerable circulation, I have no doubt, among financial writers?

Mr. ANDERSON. Yes, sir.

Mr. LUCE. Therefore it may fairly be said to have an important influence upon the financial thought of the country?

Mr. ANDERSON. I hope so.

Mr. LUCE. I think you will admit it. At least I shall admit it for you. In those circumstances, if by chance you have misunderstood any features of the situation and upon mature reflection should see fit to modify any of the views expressed in the copy I have before me of the issue of May 8, of which you have furnished copies to each member of the committee, is there a possible way in which a subsequent modification could be laid before these readers?

Mr. ANDERSON. Well, I could consider that.

Mr. LUCE. I ask that question because, frankly, it seems to me the repetition of certain language here muddies the water to some extent. You this morning, withdrew the headline, "A Revolutionary Proposal," but I find on page 4, "We do not need to make a revolution in the general banking system of the United States"; on page 6 you say "Certainly there is nothing in the experience of the past nine years, as revealed in the foregoing figures to justify a legislative resolution in our banking situation;"

On page 11 you say:

"At the same time it would avoid the grave evils that would come from the sudden revolution in our general banking system."

To one who has been present at most of these hearings during the last few months, these phrases are not in harmony with what has actually gone on in this room or with what has been said, and possibly before I have finished the inquiry, I may be able to sustain that contention.

Mr. ANDERSON. May I say that I wished to offer a substitute expression because that phrase seemed to offend one member of the committee, but that I did not mean to withdraw the expression? I used the word "revolutionary" there in its literal and technical

sense, and, in that sense, it does not mean a revolution in the popular sense.

Mr. LUCE. We will consider, as we go along, whether there is warrant for my view of the matter. As the things I have marked make it difficult to take these up except in consecutive order, possibly I shall repeat somewhat.

I observe you say, on page 4:

> The proponents of this widespread extension of branch banking outside the city of the head office apparently intend to make use of the recent rapid development of group and chain banking, by adopting legislation to permit the groups and chains to transform themselves into branch systems.

This is not in accordance with the impression I have received from the various witnesses who have been before us. I do not recall in any instance anybody connected with a group or chain system who has intimated any desire to substitute therefor the branch system. My memory may be incorrect, but certainly the great bulk of the testimony before us has not furnished warrant for thinking that the proponents of branch banking have this in mind. On the contrary, they have distinctly given me the impression that they preferred to be let alone and to continue as they are.

Mr. ANDERSON. My statement related not to testimony of the group and chain bankers. My statement was based on impressions I received from reading the first five parts of volume 1 of the testimony which did not include any testimony of any of the group or chain bankers.

Mr. LUCE. While it is possible, of course, that some ulterior motive has been at work behind the public utterances of the proponents of branch banking, nothing has appeared here to indicate that such is the case.

Mr. ANDERSON. The disposition was not to ascribe ulterior motives. It was simply that those advocating the system seemed to have in mind especially the group developments that have taken place as something that would fit into the picture and would naturally lend itself to trade area branch banking.

Mr. LUCE. I thought it fair to witnesses who have appeared, and to the committee itself, to bring out as distinctly as I can, the fact that we have had before us the picutre of two competing systems with no inter-relation of purpose, thought, or hope, and the testimony we have received has indicated to me that if we take action, it is to be expected that we shall face the question of which of these two systems is the better system and not the question of whether one would lead to the other if left alone.

Mr. ANDERSON. I had no reason to ascribe ulterior motives to anybody.

Mr. LUCE. When I use the word "ulterior" I mean in its cold sense.

Mr. ANDERSON. Hidden motives?

Mr. LUCE. Undisclosed motives.

Mr. ANDERSON. I do not mean that. I got the impression from the testimony of the comptroller and of Governor Young that they thought these groups are naturally in line with the next step in the development and I said "apparently" because I was not absolutely sure I could put my finger upon a passage in their testimony that would justify the statement in full and it was not——

Mr. LUCE. I did not receive from either of them, on my own part, any impression that they desired to intimate approval of either group or chain banking.

Mr. ANDERSON. No.

Mr. LUCE. The next passage to which I would call attention is this:

> I should not know how to draw a constitutional legislative proposal which would compel good bankers to absorb weak and failing banks.

Therein, sir, your view is undoubtedly that of all of us, but may it not beg the question? It was clearly brought out by the testimony of those representing group and chain banks that they had no intention of taking over weak and failing banks. Clearly it would be inconsistent with the business motives that prompted them to organize their groups and chains. I speak of it as begging the question because that is not the issue before us. What we want to find out is whether it is wise, by the branch-banking system, to secure routine banking facilities for small communities where a unit bank does not now exist, and if it ever did exist where it failed, and while the tenor of the bulletin before me at the start seems hostile to such a purpose, I find that later on you actually commend that purpose.

Mr. ANDERSON. I commend it from the beginning. I am in sympathy with the purpose from the beginning, but I understood the initial purpose was to arrest the failure of these banks. I think it might even precipitate the failure of small banks if you started rival banks in the communities.

Mr. LUCE. I should differ with you as to the emphasis to be placed upon the purposes of this legislation. While the failure of these banks gives a dramatic color to the problem, yet the heart of the problem is how to serve all the people of the United States. That is our primary function, and that is emphasized or rather supported by the fact that these failures are, for the most part, State banks, over which we, here, have no direct control and which we could, with difficulty, reach.

While the failures of these State banks, of course, greatly concern us as citizens of a country where we would lessen suffering as much as we can, our basic duty, as a committee of the National House, is to shape legislation of a national character, the prime purpose of which is to serve all of the people.

I think there must have been a misprint of possibly there was, in the last two or three lines of the paragraph which I am quoting, where you say that the managers of a great group-bank system "would very properly shrink from the task of taking over sixty millions of banking resources scattered among 200 banks in very small towns."

Mr. ANDERSON. I was dividing $60,000,000 by $300,000. Does not that give 200? Three hundred thousand dollars was the average size of the failed banks.

Mr. LUCE. You mean to confine our attention, then, to the smallest?

Mr. ANDERSON. To the average bank that is failing. You have your 5,000 banks fail with a billion and a half deposits, the average of the deposits being $300,000. That is the typical bank that has failed, and I say this group-banking plan is irrelevant to that. It is like threading a needle without letting the thread meet the eye——

Mr. LUCE. As a matter of fact, 5,000 banks have failed in the last 10 years?

Mr. ANDERSON. Yes, sir, and the average deposits were $300,000.

Mr. LUCE. I do not see why, if 5,000 banks have failed, with an average of $300,000 deposits, you should restrict our attention to 200 banks.

Mr. ANDERSON. It is an illustration of the problem the group banks are undertaking, and the problem they would have to undertake if they were going to stop the failures of the small banks. They are not taking in $300,000 banks. This was merely an illustration. I could make it 10 times as big or half as big.

Mr. LUCE. Well, it sufficies for my purpose to point out it is not the 200 that have agitated us but the 5,000.

Mr. ANDERSON. I will reply, to meet your figure, it would be a very difficult undertaking to try to administer 5,000 banking offices averaging $300,000 deposits each, and that any group would properly shrink from doing it.

Mr. LUCE. Let us go to the sixth page, where you say, after using the word "Revolution," as I referred to a while ago—you go on to aver there is nothing in the experience of the past nine years "to justify the creation of giant branch-banking systems, with enormous capital, ranging over 'trade areas' which may equal or even exceed Federal reserve districts in size."

It seems to me, sir, that throughout this bulletin you have given the impression that there are a considerable number of persons, some of them in official position, possibly, who have been urging nation-wide branch banking. The only witness that I recall who has come out squarely for that was Mr. Gianinni. Possibly there were one or two others who have approved it. But the nearly unanimous sentiment of the witnesses before us, and certainly the declarations of the comptroller, have not led us to believe that there is any considerable body of opinion anywhere in the land favoring legislation to-day which would permit nation-wide branch banking.

Mr. ANDERSON. There is nothing——

Mr. LUCE. Let me finish the basis for your comment by saying that to one who has been confronted with the discussion of this subject now for several years the problem presents itself as wholly one of degree. I may have been the first member of this committee, nearly 10 years ago, to point out what I thought was the inequity of the situation in a town like the one from which I come, where a State bank—we call them trust companies—was allowed to have a branch bank on the other side of the river which splits the town, while the national bank was not. I was several years ahead of my time in suggesting that this situation ought to be remedied. Possibly it was five or six years ago——

Mr. ANDERSON. May I correct one point here?

Mr. LUCE. Yes.

Mr. ANDERSON. There is nothing in my paragraph that you quoted that says anything about nation-wide branch banking.

Mr. LUCE. No. I am showing you, as it often happens, that the atmosphere of a document is sometimes conceived by the reader differently from that which the writer intended. My reading of this document gave me the idea that you thought some one was trying to institute nation-wide branch banking. On more careful study, I discovered further on that you were hedging.

Mr. ANDERSON. I used language that corresponded to the language of the testimony in the hearings. I refer to page 6, volume 1, part 1, of the comptroller's own testimony as to what a trade area should be.

Mr. LUCE. I shall not go further than to say that I think you have misunderstood the atmosphere of these hearings.

Mr. ANDERSON. That is possible; yes, sir.

Mr. LUCE. But to go on with the point I wanted to bring out, for it is fitting, in connection with your testimony, that the many readers of the reports of these hearings should understand just where we stand in this matter, I would say it was five or six years ago when the committee and the public began to take seriously the proposal that there should be some opportunity for branch banking, and we had here long discussions of how far it should extend, and we made serious attempts from time to time to lay down a proper limitation. It was made difficult by the fact that a considerable number of large cities are located on the boundary between the State in which they are located and another State. Noticeable cases were those of Cincinnati, across from Covington; St. Louis, across from East St. Louis; Kansas City, Mo., and Kansas City, Kans.—and these were not the only ones that puzzled us.

I doubt if we ever did reach a satisfactory conclusion or whether, if an attempt to put a universal rule into words were made, it would be practicable. Yesterday, the witness told us he saw no reason why a New York City bank should not have a branch in Jersey City. I think it was the day before a witness said just the opposite thing. He said he did not see any reason why New York banks should have branches in Jersey City.

As a matter of fact, one wholly free from any prejudices in the matter, would say that there is no logic in a downtown New York bank having a branch in Harlem being refused one in Jersey City or Newark.

However, I speak of that merely to finish my picture, to show you where we stand in this matter.

There came along the McFadden bill which, in spite of strong opposition, made it possible for national banks to have branches in the cities where they were located, if State banks could. This has not proved a conclusion of the argument. You suggest in here, in one place, the use of counties. Now, you are confronted there by the fact that counties differ greatly in different parts of the country. Middlesex County, in my own State, at one end, could be reached by a fairly good rifle, from the city hall in Suffolk County, while, on the other hand it extends up to the border of New Hampshire and has in it, at that end, the city of Lowell of 100,000 people.

Our own counties in New England are of different sizes and different population and do not correspond in any way with the natural divisions of commerce and industry. The western counties were apparently laid off on the map with a foot rule, regardless of the county seats or other considerations. You will find a whole State with nearly every county of the same number of square miles. In every State counties have no commercial or industrial significance. If you attempt to make it counties, you would be confronted with serious obstacles.

Mr. ANDERSON. I therefore propose no general Federal legislation.

Mr. LUCE. But in your statement you go further and suggest States. Here again are ludicrous differences. Here, for instance, is the State of Delaware that an automobile can traverse perhaps between noon and sunset, while Mr. Garner, of Texas, has just proposed that we divide Texas into five States, each one of which would be larger in population and greatly larger in size than many of the States now existing. To run from one end of California to the other is a great deal more than a Sabbath day's journey. So, State lines have really no banking logic whatever.

Mr. ANDERSON. State lines have this tremendous significance: The States are the constitutional units. They are not subject to change, whereas your county lines could be changed within the State at its own pleasure. If you are going to have local autonomy the State is the unit that must have it. The question comes up whether the mere question of banking expediency shall upset the Federal system. I believe, as a citizen, in preserving the Federal system and the State is the line where the lines must be drawn, because there is no other line that means anything.

Mr. LUCE. There is no other political line, but the lines of politics and government and the lines of business ignore each other.

Mr. ANDERSON. Yes, but legislation can not ignore political lines. Probably also very often we can make accommodations. New York and New Jersey divide the harbor of New York and they have worked out an arrangement. The Port Authority of New York Harbor has been worked out by the two States. We have other things by which New York and New Jersey cooperate by treaty in local problems. In this matter of banking arrangements, it is perfectly possible, under the general remedies I offer, for a State to pass legislation which would admit the banks of another State and permit them to have branches. There is no objection to concurrent Federal legislation to allow national banks to do the same thing.

Mr. LUCE. If your experience in State legislatures and Congress had been equal to that of yours in banking, you would probably accept the word of one whose experience has been more largely in legislative bodies and in Congress, who would tell you that such a possibility can not, within the limits of possibility, even become a possibility. The thing can not and will not be done.

Mr. ANDERSON. But the thing has happened. A bank in California has branches in Seattle and Portland. A national bank in California has branches in Seattle and Portland.

Mr. LUCE. I am unfamiliar with the circumstances by which that came about, but when I watched a State, like the State of Maine, for example, by a popular vote, refuse even to sell its water power beyond its boundaries, I should not expect the State of Maine to accept the intrusion within its boundaries of the branches of any Boston bank.

However, let us return to the subject of the examination. You pictured these trade areas as such as might equal or even exceed Federal reserve districts in size. Now, the smallest number of areas that has been importantly suggested to this committee, is 35, which would give an average population of 3,500,000.

Now, what is the size of the population of New York—9,000,000?

Mr. ANDERSON. We have a very big State and a very big population.

Mr. LUCE. I mean New York City.

Mr. ANDERSON. My recollection is the 1920 census shows 9,000,000 for the State.

Mr. LUCE. Well, we will call it 7,000,000.

Mr. ANDERSON. Yes.

Mr. LUCE. Then, New York City has a population twice as large as would be the average population in one of these districts, if they were 35 in number.

Mr. ANDERSON. Not in size.

Mr. LUCE. I am talking about size measured by population. Yet you find nothing unwise in permitting branch banking in the city of New York with its 7,000,000 people.

Mr. ANDERSON. It is all compact. The branch and head office can be in daily communication. The officers of the branch and the officers of the head office can know one another personally and sit at luncheons together and serve on the same committees once or twice a week. They are right there and accessible.

Mr. LUCE. That, of course, is an advantage not to be ignored, but in these days of the telephone, I suppose there is no thirty-fifth of the population of the United States where there is no possibility of practically instantaneous consultation.

Mr. ANDERSON. Telephone consultation is easy when you know the man. To work over a telephone with a man you do not know is a different situation. After all, you have to have documents before you. The head office man has to have the documents and see the whole picture.

Mr. LUCE. This of course involves that part of the bank which concerns itself with the giving of credit.

Mr. ANDERSON. There are many other things besides that.

Mr. LUCE. Where important consultations are necessary we may assume that credit is the important thing. We have been told that in other localities where branch or even group banking prevails the managers of the branch banks have only limited powers; that they can make only loans about which no question would arise, and that all important loans have to be referred to the head office; in fact, that is one of the criticisms made of the system. But what particular injury do you conceive that would work?

Mr. ANDERSON. One of the most important things is that a customer who wants the loan very often wants to see the man who passes upon it or the head office official who passes on it wants to see the customer and size up the man. We can do it in the city where you can not do it when he is off at another place. The question of personal knowledge of the borrower remains very important.

Mr. LUCE. But we have been given to understand that the errors in judgment of comparatively inexperienced men in smaller communities have been largely responsible for the failures of those banks. Is there not something to be said for the wider experience and the more trained capacity of the men who would be handling the credit department of a branch banking system?

Mr. ANDERSON. The personnel in the branch is not likely to be superior. On the average I think it would not be superior to the personnel of the independent unit that is displaced.

Mr. LUCE. That is true. I am talking about sizable loans. I am taking, for instance, the question raised by a stock raiser who might want a loan of, say, $30,000. Is it clear that the judgment of the

small—and I do not use the word invidiously—banker in a small community would, in those circumstances, be better than that of a banker in a large center like Denver?

Mr. ANDERSON. His judgment would be better in regard to the character of the borrower because he knows him and his judgment would be better as to the quality of the cattle and whether they are there.

As to the cattle market and the future of the prices of cattle, if he uses his own judgment, it would not be as good, perhaps, as that of the correspondent banker in Chicago, but if this banker is a good banker, he is getting opinions from Chicago all the time about the cattle market in Chicago.

Mr. LUCE. Does it stand to reason that the individual you would characterize as a good banker will stay very long in a small town running a bank with less than $300,000 deposits?

Mr. ANDERSON. He will stay longer if he is the president of the bank than he will stay if he is an employee of an outside institution. He will, in the first case, be interested in staying. He is proud of his institution and wants it to grow and, in the second case, he will be anxious to get away to a bigger office of the bigger bank.

My judgment with reference to the European banker is that there is no question of the superiority of the American local banker over the brach officer in the European town of the same size. On the other hand, when it comes to the head offices, there is immense banking ability in Europe. But it is in the head offices.

Mr. LUCE. I would not demur, but would qualify that by saying that no branch system contemplates giving the local manager that degree of authority which is exercised by the unit banker.

Mr. ANDERSON. That is very true.

Mr. LUCE. At page 7 you refer to:

> Concurrent legislation on the part of the Federal Government * * * such as would permit national banks to have the same branch-banking rights that State institutions have in these States.

In addition to the doubt I have raised as to the business expediency of adopting political lines for business regulations, I would ask you what is the logic of restricting the judgment of Congress to expression in only those parts of the country which chance to agree with us?

Mr. ANDERSON. I had thought of it the other way. I had thought of it as being desirable that Congress should hold back rather than push forward in this matter of branch banking outside of the city in which the head office is located, and it was my idea that national banks should have no branches outside of the city in which they were located, but I was agreeable to going along with the wish of the comptroller to prevent national banks surrendering their national charters and thus maintaining parity with the State systems.

Mr. LUCE. Perhaps more than most members of Congress, I am in hearty sympathy with what you have said in favor of noninterference with local affairs by the Federal Government. My votes, I think, have been invariably cast against avoidable extension of national powers. Perhaps I should modify that "invariably" by confining it to matters like contributions to schools, roads, etc. But are we not confronted with the fact that, through the exigencies of war indeed, but nevertheless with what on the whole have been thought

admirable results, we did create a national banking system which you, yourself, hope may prove a model for the States?

Mr. ANDERSON. I would say has proved a model for the States.

Mr. LUCE. This national banking system has developed, in the direction of securing adequate banking facilities with adequate protection all over the land. If we, in our wisdom—and of course we are falliable, but once in a while we have spasms of wisdom—if in one of those spasms of wisdom, we decide it is a useful thing to put banking facilities within the reach of small communities of the country, what logic is there in saying we will do it only with the permission an approval and blessing of the State that happens to look at it in the same way?

Mr. ANDERSON. Well, sir, I should think that the experience of recent years with Federal institutions that have been created to give additional credit facilities to agriculture would tend to make you go very slow about creating new banking institutions. It is much better to let them grow out of private enterprise and it is better to let private enterprise themselves take the initiative. Some of the institutions were, it is true, left to private enterprise, but encouraged by the Government.

The result has been a tremendous increase in the debt of agriculture, without any increase in the production of agriculture and the condition of the country banks has been due in part to just that thing, that the equity left in the farmer's hands was so small after he paid interest on this easily incurred debt, the institution found itself in difficulties, and I hope you will not feel you have to supply additional banking facilities.

Mr. LUCE. We people who come from States where agriculture does not predominate inevitably think rather about our own conditions. Let me illustrate.

I live in the city of Waltham, Massachusetts. It has 35,000 people or more. Adjoining this is the town of Weston, with a few thousand people, and a trust company in my city has deemed it profitable to open a banking office in that town. Next is the town of Wayland, with about the same population. What is the logic in saying we shall stop at the boundary between Weston and Wayland?

Mr. ANDERSON. Your State law stops you there?

Mr. LUCE. As I recollect, all extensions of State banks have to be with the approval of the State Banking Commissioner, but suppose a condition where the present national law would prevent it.

Mr. ANDERSON. Let me say, as far as I can gather, your banking situation in New England, under State regulation, is excellent. Your failures have been few and I do not think that New England has to come to Washington to get help on banking matters.

Mr. LUCE. I will anticipate another part of the interrogatory and express my wish that we might, in these hearings, pay more attention to the convenience and benefit of depositors in banks.

The tendency is to think of nobody but the borrower. There are a great many persons who use banks who do not borrow. I am one of them, and when you put in that list of English banks that were open only one day in the week, do you know what my reaction was?

Mr. ANDERSON. What was it?

Mr. LUCE. I wished we had the same thing here.

Mr. ANDERSON. And only deposit once a week?

Mr. LUCE. I have occasion for three or four months a year to keep a deposit in a country bank in another town a dozen miles away. Every week or two I must go over there to get cash, whether I want to or not, to get the money for current needs. If there was, as we talk about here, a teller's window that was open once a week in the central part of the town of perhaps a thousand persons, in which I have occasion to stay, it would be a real convenience. So instead of your array of English banks that are open part of the time discouraging me, it encouraged my hope that we might some time have the same thing here. To carry it further, it seems to me that if, out of more than 5,000 banks that have failed, there were, at a guess, 3,000 of them in communities without other banking facilities, it would be justifiable and admirable to replace those facilities that have been lost, by what would come from a banking office open only once or twice a week. I want to get that in the record to show there is another side of the picture.

Mr. ANDERSON. I tried to get the other side into the record by saying there are some places in England that would not have any banking facilities at all if those did not exist.

Mr. LUCE. On page 9 you state:

> The very small bank has had a difficult time in recent years, and the marvelous thing is not that so many have gone under, but rather, that such an enormous number have stood, and have even prospered, despite these adverse tendencies.

Reference to the census figures, as well as our common knowledge of what is going on all over the land, indicates that many of these towns which still have sound banking institutions, are likely to meet the same fate as the towns that have already dwindled. It looks as if the automobile had sounded the death-knell of the small American town.

That being the case, if what we have seen is only a precursor of what will follow, and there is nothing to indicate to the contrary, why should we not anticipate that danger and avoid the failure of 5,000 more bank by permitting them at once to become branches if they so desire?

Mr. ANDERSON. I think that in many States state legislation to permit that, and state legislation to compel consolidation among the tiny banks would be desirable.

Mr. LUCE. Why should we wait for the States to act to prevent a calamity to hundreds of communities?

Mr. ANDERSON. The legislation proposed here—this trade area branch banking for national banks—would not touch this situation. You do not compel the banks to consolidate, nor do you compel banks that may establish branches to go into these States after those banks that may desire to become branches. You even permit branch banks to come in competition with banks already established and, by that, you may precipitate the failure of the little ones by permitting this competition. If you provided branch banking and limited it to towns of five or ten thousand population, you would concentrate the interests of the bankers and branch bankers upon this problem.

Mr. LUCE. If the nation should take some precautions through its comptroller, that possibility of injury would be removed?

Mr. ANDERSON. I think it would be better than opening the whole field, and making States that did not want it have to submit to it. There are any number of excellently organized State systems that do

not need it at all. I am sure New Jersey does not need it, and I am sure that New England does not.

Mr. LUCE. I am still loathe to concede that it is not the business of the Federal Government to——

Mr. ANDERSON. I will not argue the matter with you further because you are a constitutional lawyer and a lifelong student of political science and my opinion is not as good as yours.

Mr. LUCE. I thank you for your unduly generous comment. I should be more ready to accept your view were it not for the fact that we find ourselves with the national system on our hands and we are confronted with the problem of what we shall do. For one I am inclined to let the States handle their affairs without here paying much attention to what they do.

I think my questions have covered the important points I wanted to bring out. From the answers I should conclude, that our difference is a matter of degree. Be assured, sir, that there is no wish on the part of at least one member of the committee to start a revolution, or accomplish anything radical. He is simply interested in trying to see if a moderate extension of a practice already established and justified by results may not help in averting what he feels are the dangers of group and chain banking.

I thank you.

Mr. ANDERSON. I thank you and through you, the committee, for the courtesy you have shown me.

(Whereupon, at 4.20 o'clock p. m., the committee adjourned.)