

Branch, Chain, and Group Banking

HEARINGS BEFORE THE COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES

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BRANCH, CHAIN, AND GROUP BANKING

TUESDAY, JUNE 10, 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 Mr. Elmer E. Adams, president of the First National Bank of Fergus Falls, Minn. I understand Mr. Adams has a statement to make and I am going to suggest to the committee that he be permitted to make the statement without interruption, after which he will be glad to answer questions.

STATEMENT OF ELMER E. ADAMS, PRESIDENT OF THE FIRST NATIONAL BANK OF FERGUS FALLS, MINN.

Mr. ADAMS. I have been asked to speak for those bankers who still control their own banks and hope to be able to do so. We are opposed to the establishment of branch banks outside of the metropolitan districts. Group banks have probably become established to such an extent that it is impossible to undo what has been done. However, the individual banks which are on their feet have no fear of being unable to compete successfully with group banks unless unfavorable legislation is passed.

We do not want to have new group banks established in communities which are already amply supplied with banking facilities but we are not opposed to group banks acquiring banks now established. We do not like to see the propaganda put out which has been put out so generally, that the individual or unit banking system has broken down and has failed to meet the responsibilities and obligations which the public could expect from it.

Many statements have been made which are detrimental to the unit banking system which are partially or wholly untrue and which leave an erroneous impression among the public and patrons of banks. A difficult situation has been made worse for a good many banks which were not in proper condition by advertising the vast resources which the group banks make available to the communities which they were anxious to serve. The unthinking depositor does not realize when he reads of the tremendous resources that the liabilities increase correspondingly and that the smaller bank is just as safe as a larger one if the same ratio of capital, assets, and liabilities is maintained and it has the same efficiency of management.

The unfortunate situation which has developed in the Northwest and in some other parts of the country is not in our opinion due to the failure of the present system of banking but because Congress and

legislatures have permitted the establishment of banks with too small capital and in communities which were unable to support them.

It seems to have been the custom of those who have appeared before this committee to give the history and development of the institutions which they have represented and if I may be permitted to give a brief sketch of the situation with which I am connected I think it will afford a good illustration of what many country banks throughout the entire Northwest, have done and are now doing.

The First National Bank of Fergus Falls, Minn., is the oldest national bank between the Twin Cities and the Pacific coast. It has been in operation 58 years. During that time more than 50 banks have been established in the territory which it used to serve. Some of these banks have failed, others have been consolidated, but there are now about 35 banks in the territory which it once occupied alone.

In some of the small villages in this territory there have been three banks operating at the same time and there are several villages with less than 500 people which have two banks. We feel that a serious error was committed when the National Government reduced the necessary capital from fifty to twenty-five thousand dollars for a national bank. Until recently State banks have been permitted with a capital of \$10,000 which has hardly been enough to provide a building, a safe, and an adequate sign. An attempt was made in the Minnesota Legislature to reduce the necessary capital to \$5,000, but this legislation did not pass.

This great expansion in banking institutions in the Northwest occurred from 1900 to 1910 and followed what is sometimes known as the "Iowa invasion," which refers to that period when the land boom which has resulted so disastrously was in its period of inflation.

It has been stated before this committee that the breakdown in agriculture was due to the lack of adequate banking facilities. I do not think this is any more true than it would be to say that the recent collapse in the stock market was due to the unwillingness of the metropolitan banks to advance the necessary funds to put up the margins. The inflation in land values and the widespread speculation in land resulted in the establishment of many banks which were in the nature of land offices and an important part of their business and a large part of their income while it lasted was a result of the active dealings in farm lands.

It is difficult for one who has not examined the assets to know why a bank failed but there is not the slightest doubt but many of the banks which failed, failed because they were used to carry the undesirable securities which grew out of the land deals of those who operated the banks and if the supervising banking departments, State and National, had aggressively taken the situation in hand when these banks were found to contain such securities the failures in many, many cases would have been averted.

After these banks had become involved and should have been closed they were permitted to continue in the hope that there would be a recovery in land values and that they would be able to work out of the position in which they found themselves. Some may have succeeded in working out, but the majority did not, and depositors, not knowing the conditions, were permitted to put their money into such banks and lost it, thus bringing discredit on the system and on the banks which were being operated in a safe and successful manner.

There is not the slightest doubt that if banks had not been permitted in locations where it was impossible for them to succeed and had not been undercapitalized many failures would have been averted. Notwithstanding the large number of failures which have occurred there are more than sufficient banks now to meet the requirements of the territory and there are sufficient sound institutions to properly handle all of the business.

There is a large amount of surplus money in banks in our section. By this I mean banks which are not only able to take care of all the legitimate borrowings but are in the market for outside investments such as commercial paper, Government and corporations bonds.

During the 58 years that our bank has been in existence I have been unable to find that it has ever borrowed or rediscounted either with the Federal reserve bank or any of its correspondent banks and there are doubtless many other institutions which have had the same record.

It is conceded that when the group-banking idea was taken up with so much vigor about 18 months ago that many banks were deeply concerned as to what it might do to them. The intense rivalry of the groups to secure the best banks in the various "key points" and the aggressive work of their outfielders in proclaiming that there was nothing for individual banks to do but to become a member of a group while there was an opportunity naturally caused some consternation among bankers. This feeling, however, has gradually passed away and they are confident that if the legislation which is enacted by the State legislatures and by Congress gives them an equal opportunity they will survive and serve their communities.

It has been claimed that a large number of villages which have enjoyed banking facilities are now without them and that it is desirable to have branches established in such places. We do not believe that such is the case and under present conditions of travel farmers and business men who were accustomed only a few years ago to drive with their teams to trade or to a bank, now cover a distance of 50 miles as easily as they did 10 or 12 under former conditions. I venture the opinion that these branch offices would never justify the expense. People like to come to the larger towns when the roads are good.

There have been two classes of bankers who have appreciated the establishment of the group systems. The first is those bankers who have entertained some doubt as to their success in the future and who have suffered somewhat from the fear that on account of the weaker institutions in near-by communities they might be involved in trouble. The second is a class of very good bankers who were glad to be relieved of the responsibility and to place their institutions in safe hands as has been done by turning their banks into the group systems.

If overbanking and undercapitalization is the cause of the banking troubles, and it is generally conceded the banks in the large cities are responsible for their full share of the trouble.

When the period of bank expansion began, 20 or 25 years ago, every large bank in the terminal cities was anxious to get the business of the country banks. They sought their accounts. Frequently they enabled them to raise the capital by taking the notes of stockholders who did not have the money to pay for the stock for which they subscribed. These banks, starting out weak, and in territory oftentimes still undeveloped, soon needed additional funds and they naturally went to the correspondent bank which had their account

for that assistance. The starting of these hundreds of banks in a short period resulted in their being placed in the hands of young, inexperienced, and untried men. Their idea was to get all the business possible and to make their bank grow and to boast of its growth in comparison with rival institutions. They seemed to have the idea that the more they could borrow and the more they could draw deposits from outside their territory, the more successful they were. This kind of growth was all right just as long as values were being inflated.

I recall an interview with a young banker who came to see me just as the trouble was beginning to break in hundreds of little banks throughout the Northwest. This young man said that he had not scalded his stockholders worse than he had, as he had gone into the banking business when times were good and values were tending upward rapidly. He said that he had never heard of rust and hail and hog cholera and drought and the various weed pests which quickly destroyed values and left the borrower unable to pay.

Practically every one of these little banks was in the farm-land game. They were either the outpost of a bank in Iowa or Illinois or else they made such a connection, the plan being that after the Iowa banker had lent an Iowa farmer money with which to buy cheap land in the Northwest, he was steered into the hands of a Minnesota or Dakota banker who sold him the land and took his profit in a second or third mortgage. These second and third mortgages soon drifted into the bank and when they once had this proposition on their hands it was necessary for them to continue to make advances to help the occupant of the land carry on. Sometimes he needed more money to pay his interest, at other times to buy additional machinery or perhaps the twine with which to bind the grain when it ripened. One crop failure or an improper diversion of the proceeds of the crop put loans of this character into the frozen class.

For a while relief was available through the Federal farm loan bank and through the joint-stock land banks and through the Minnesota or North Dakota rural credit associations.

The local banks loaded these overmortgaged farms onto these governmental agencies by the hundreds, in some instances relieving themselves temporarily and helping out insurance companies, trust companies, and others who were alert and on the ground looking for their money. These small banks not only borrowed when it ought not to have been done, but they had no reserve of any kind which could be cashed when people wanted their deposits, and the result was that they became frozen to such an extent that it was impossible to thaw them out.

If their stockholders had been substantial men of the community who had any funds with which to engage in the banking business, there would have been some chance of relief, but about the first intimation that the directors and stockholders had of the conditions of their banks was when they were called upon to mortgage their own property and raise funds in the hopes that the bank might be saved. I do not believe it is an exaggeration to say that in 90 per cent of the country banks the directors had no knowledge of the condition of their institutions. Recently there have been many law suits in which directors have been sued, not only for receiving funds in their institutions after they were insolvent, but for their failure to use

proper diligence in guarding the funds which were attracted to the institutions through their good names.

One of the most important problems now affecting the banking situation is the liquidation of many banks which are not able to extricate themselves from their distressed situation. In many cases their capital, their surplus, and undivided profits are tied up in assets which they can not sell for what they are carried on their books, and under present earning conditions are unable to earn sufficient to charge off these losses.

The banking departments are doubtless in hopes that conditions will so change that banks thus involved may be saved, but it is a grave question whether they ought to be allowed to continue to take the money of innocent and unwary depositors.

The chain or group bank idea is not new, although it has had a fresh start on a larger scale in the last year or two, with a slightly modified plan. These chain systems have almost always been controlled and operated from the large cities. Sometimes an interest in a local bank was acquired, but in most cases new banks were established as new towns sprang up with the building of railroads. Some of these chains have been quite successful, but many met with disaster. The plan of operation from the large city included the selling of farm mortgages which the frontier bank was expected to obtain and send in to headquarters. The commissions were so good that there was intense rivalry in securing these loans, and they constantly grew larger, faster than the land increased in value. These loans were disposed of through the head office, and so long as values went up and the farmers were able to pay, business was good; but instead of using the profits to build up a surplus and undivided profits to put the bank in a position to take care of the set backs which were sure to come and which have come, the profits were drawn out by the controlling head, used to establish other banks, or diverted into other channels, with the inevitable result that there was nothing on hand to take care of losses when they came.

In conversing with young men who have been operating these chain banks and trying to ascertain why they failed, I find that the split loan which was fed into the banks from the head office was one of the major factors. These young men operating the banks had to take the loans which were sent to them if they desired to hold their positions, and frequently funds in a community, which was fairly prosperous, under this plan were diverted into other regions where rates were higher and the certainty of pay not as great.

It is a matter of regret that in the Northwest, when a bank has failed, a post-mortem could not have been held, so that the public, or at least the bankers, might know what had brought about the disaster; but when a bank fails, the depositors take what they can get. They never learn what became of their money.

Some of those who have lived here in the Northwest have known all these years what chain systems have been doing to the country districts and the country villages. The first chains to be established were the country elevators. It was possibly the result of necessity. When the St. Paul, Minneapolis & Manitoba Railroad, later known as the Great Northern, was being extended from the Twin Cities north into the wheat fields of Minnesota and Dakota, it was necessary to have elevators to take care of the grain; and so Mr. James J. Hill

gave to Pillsbury and Hulburt the exclusive right to build and operate elevators on his railroad. In those days farmers and local dealers were not allowed to build an elevator on the right of way, to get a spur track to elevators on private property, to have a loading platform, or to obtain cars in which to ship their grain. This was the cause of the organization of the Farmers' Alliance between 1880 and 1890, which later developed into the People's or Populist Party. That was in the days of bleeding Kansas, when Senator Peffer, Sockless Simpson, and Mary Allen Lease were in their prime. At that time the chain elevator fixed the price to be paid for wheat, graded it, weighed it, docked it, and there was nothing for the farmer to do but sell his grain under those conditions or take it home again. As a result of the Farmers' Alliance, that marketing situation was remedied and cooperative elevators were built and cars could be obtained in rotation, but as a result of these chain elevators the profits from handling the grain, which was the great business of the country, did not remain in the local communities but went to the terminal cities just as the profits of the chain banks will go there in the future.

The chain elevators were followed by the chain lumber yards and in the saloon days by chain saloons operated from the big brewery by an irresponsible bartender who was moved whenever he got into trouble and another equally good man put in his place. There are four banks in the city in which I live: Two national and two State. One is owned by one of the newly formed bank groups. Nine hundred and two shares of the stock of that bank are owned in the Twin Cities and the balance of the capital stock is either owned here or is perhaps lent to qualify directors. The stock of the other banks is owned in the community and if there are any profits, they are kept at home for home purposes. There is no doubt which system is the most desirable for the local community.

The success of the banking business in the agricultural community is so interwoven with the success of agriculture that possibly I may be pardoned if I digress briefly to give a little picture of the agricultural development as I have seen it.

Otter Tail County, of which, Fergus Falls, where I live, is the county seat, is perhaps one of the most highly diversified counties in Minnesota. It is in a lake region, and a very large portion of the land was covered with timber. The pioneers came there because there were two essential necessities—wood and water. This country was opened up before the prairies on this account. The timber not only furnished them fuel but logs with which to build their buildings even before the sawmill had arrived. The soil is excellent, and those fields which the pioneer grubbed and put under cultivation have never failed to yield a good return. As a result there are some of the finest little banks in this county that are to be found anywhere in the United States. I am a stockholder in four banks in this county: One National, three State.

In the 58 years in which the First National of Fergus Falls has been operating it has increased its capital from \$50,000 to \$100,000 and built up a surplus of \$150,000; during that time it has distributed \$538,000 in dividends to its stockholders, and at no recent examination have the examiners asked to have anything charged off or charged down. We have the First State Bank at Underwood which started with \$10,000 capital and \$2,000 surplus. It now has a capital of

\$10,000, a surplus of \$20,000, undivided profits of about \$10,000, and a depreciation fund of \$6,000 set up to take care of bonds which are not worth as much as they were when we bought them, but none of which have as yet defaulted their interest.

We have a bank at Dalton, a near-by village, with \$10,000 capital, \$10,000 surplus, and \$4,000 undivided profits and at the last examination of these banks the examiners did not ask to have anything charged off or charged down. We have another State bank at Erhard which started with a capital of \$10,000 and \$2,000 surplus and has built up a surplus of \$7,000 and we believe is clean.

During this period when these surpluses have been built up, these banks have paid a good rate on the capital. None of these three villages have over 300 inhabitants, yet charters were granted to start so-called farmers' banks in two of these villages, which naturally have interfered somewhat with the success of the bank already started; but this is evidence to my mind that if banks are only fairly decently managed, independent banks are able to survive and serve the community. The banks have been operated at low cost, but their earnings have practically all come from interest and not from the side lines which have injured so many banks. It is true that in the territory which can possibly be called the treat area of Fergus Falls, eight State banks have failed. They were all banks with small capital, and out of these eight banks, nine men went to the penitentiary, some for forgery, some for arson, and some for embezzlement. Those banks were in equally good territory as those in which I have been a stockholder, and if the authorities had checked them early, some of those failures could undoubtedly have been avoided.

At the beginning of my statement I said that the individual banks which were on their feet felt that they were able to cope with chain banks under remote control. One of the groups has a splendid bank in my own city, but the other banks owned at home are not conscious of having lost anything to it on account of its being in a group, and we are unable to discover that we have gained anything on account of our banks being owned at home and controlled at home.

Mr. STRONG. Just a moment. You say there has been no gain in your business.

Mr. ADAMS. I mean there has been no change in the banking business in the community. There has been practically no new business in the community and those who were in the chain bank stayed there and those in our bank remained with us.

We stand an equal show in getting local business. The chain banks have a better chance to get business which is controlled elsewhere. There are something like 20 chain institutions in our city, which has a population of 9,370 according to the recent census, but of which more than 1,500 are in a State institution. The county seat with good roads and rapid transportation has absorbed the outlying villages, and our local business has been absorbed largely by the chain institutions which have crowded into it and which are now in each other's way. The banking business of these chain stores and institutions is controlled from the headquarters' office and the chain banks through their head office have a better opportunity to get it. It is not considered very valuable, however, as the funds are transferred almost as soon as they are deposited. We are confident that banks locally owned can be operated at much less expense than those

which are owned elsewhere and have to carry the overhead charge of the parent company. Those who operate locally owned institutions are touching elbows with the people of modest means, and are influenced in their expenses accordingly, while those who own or are employed by the large chain institutions are surrounded by vast capital and resources, and expenditures of every line are correspondingly increased.

We all concede that as a result of the purchase of local banks by the groups or chains, banking conditions are improved. They must of necessity tighten up and require their links to comply with certain fixed standards and rules in which the local bankers have doubtless been remiss and careless. This is particularly true in the requiring of financial statements, in the insistence that a note be paid or attended to when due, and the maintaining of a proper deposit or paying a fee for failure to do so. Competition is vigorous between the group banks and those locally owned. The group banks must make dividends or the management will be changed and the local banks are eager to make money as the stockholders need the dividends.

I do not think that the group banks are entitled to too much credit for being engaged in an unselfish game. Some of the groups went into it reluctantly but felt that it was necessary in order to protect the business which they had built up, as the country banks which carried good accounts with them were being purchased by rival institutions. When this group movement started, they did not seek out communities which needed additional banking facilities, but they picked the strong institutions at the key points so as to control the good business in the outlying districts and while they have availed themselves of the opportunity to get into some communities which have lost their banks, I know of no place where they have gone into a community to clean up a situation unless it was with the expectation of profit which is entirely proper and which policy I heartily indorse.

The crying need, however, is for banks which will take care of the poor borrowers. By the poor borrowers I mean the men who never want to pay a note when it is due and who too often want to add the interest to the principal. These men need help and must be helped if they are going to function. They have to have seed when spring comes. They have to have feed for their stock if there is a shortage, and they are quite liable to need machinery and twine when it is time to harvest. They mean to pay their notes but every now and then some disaster comes and they are unable to do what they agreed to do; and so these banks, which have been carrying this class of business, have been involved in situations from which it was impossible to extricate themselves. Neither a group bank nor a branch bank will ever take care of this class of trade. The local banks have done their share of it. In former days the general merchant and the implement dealer aided. They not only gave them credit for goods, but it was not an uncommon thing for the farmer who was trading at a store to borrow small sums until he could harvest, sell an animal, or raise the funds in some other way. The old-time storekeepers were generous in this way and the banks carried them, but you can imagine a farmer who suddenly needs a little money going to Mr. Woolworth's manager, or Mr. Montgomery Ward's manager, or Mr. Sears-Roebuck's manager and getting the accommodation which he used to get from the old-time merchant. This situation of the poor borrower is constantly

getting worse as the number of farms acquired by mortgages increases. The tenants on these farms are very seldom in financial condition so that they can provide an equipment of machinery, their one-half of the stock, and get along from harvest to harvest.

There is a crying need for institutions to take care of this class of business, but I am unable to determine how it can be done, and I have lived among them for many years. We do what we can along these lines and while the losses have not been very large, it is because we have been very discriminating in accepting them.

The installment buying has increased the difficulties of the local banks very much. Ten years ago chattel mortgages were not 10 per cent as many as there are at the present time, and these mortgages are almost always given to pay for the automobile which has become a necessity and which every farmer and every citizen must have in order to carry on and enjoy any of the pleasures of modern life. The banks have taken very little of this installment paper. It has gone into hands sometimes local but very generally foreign; and they have insisted on the prompt payments of the installments when due. This has resulted in those who have borrowed at the banks taking care of these installments instead of paying the banks. The family will give up everything before it will let go of the automobile.

Some of the heads of group banks who have appeared before this committee have dwelt upon the marketability of the stocks of the holding companies, and the lack of it so far as home-owned banks are concerned. I have always maintained that the stock of a bank should be owned locally by the substantial men of the community whose money was in it and whose wealth was behind it. I have believed that it was the most desirable that there should be a permanency of ownership, and have protested against the splitting up of shares with a view of democratizing an institution. There was a time when the advertising of bank stocks for sale aroused suspicion, and banks did not like to have their capital floating about, for if the bank was good it was closely held. The quoting of group stocks on the local stock exchange in my opinion has had a detrimental effect. Many without capital bought small quantities of the stock, not for the purpose of furnishing banking capital, but for the increase in the value of the stock as reflected by the figures on the board. The wide fluctuations in the market quotations of these group holdings have seriously affected them, and the fact that the market prices of the stocks have dropped far below the prices at which they were passed on to the public has made it much easier for the individual banks to meet their competition in the banking business.

I have never observed a shortage of funds in our territory to take care of good loans. A very large proportion of the banks which have been taken into the groups and a goodly portion of those which are now individually owned are excess money banks and have always been looking for commercial paper and other outside investments, because there was not an opportunity to loan it at home under conditions which would insure its repayment. This surplus money has resulted in many of the banks buying bonds. We have not used as good judgment as we ought. We were inexperienced in the bond purchasing business, as we had never carried bonds in our banks until the Liberty loans were made. In purchasing of these bonds we have relied very largely upon the good names of the banks which had

bond departments selling us bonds which were of a proper character. Some errors have been made. It is claimed that one of the services of the group banks will be to advise their members as to what kind of securities to purchase, but unless they are more infallible than they have been in the past, they are liable to make some errors. If there are any impending losses, in the country banks at the present time, they will come from the bonds and not from the local loans.

Country banking is so closely related to agriculture and farm development that I want to refer to certain developments which I have seen during the 50 years which I have lived in the Northwest.

There have been three distinct periods in the development of the Northwest—the ox age, the horse age, and the gas age. If the building up of the farm and the liquidation of debts was the test, the ox age was the most successful of the three. When the settlers came into the country they brought oxen for motive power. They were cheap to buy, easy to keep, and valuable for food when no longer able to work. For years I saw long trains of ox teams coming in from the country bringing in wood, the results of the clearing of the land, or bringing the grain to the elevator. It was tedious work, but when they returned home they remained there until it was necessary to come to town for similar purposes.

Then the horse traders arrived and the debts began to increase and the first hard times began. The horse traders generally cooperated with the local bank which took the paper and got part of the profits on the sale of the horses. When the farmers swapped their oxen for the horses, it was necessary to purchase harnesses, wagons, and buggies, with the result that both debts and interest increased. It also resulted in more frequent visits to town and consequently increases in expenditures.

When the gas age arrived with good roads the situation was entirely changed. The tendency to leave the farm at every excuse was greatly increased and efficiency lessened. In passing through one of the neighboring villages a short time ago, I saw coal sheds where the wood yards for shipping out the wood used to be, and on the site of the grain elevators there were the gas tanks. This change tells why banking conditions have changed. No one should stand in the way of progress, but the results of this change have been to increase the nonliquidated obligations in the banks which have been easy in granting credit.

In previous sessions of this committee the question of a monopoly of credit has been under discussion. We do not think a monopoly could easily be created and do not suppose that any of the heads of the banking groups would try to attempt it. The unit bankers, however, are naturally concerned about their city correspondents and when one of the groups which not only had a mother bank proceeded to gather into its fold the next two largest banks in the Twin Cities there was some wondering when the movement would cease. These fears are being alleviated by the assurance on the part of the mother banks of the groups that they are going to give unit banks the same attention that they do the links in their own chains.

There has also been a discussion as to whether the building up of great groups or the establishment of branch banks would not do away with the value of the Federal reserve bank. The relations of the small country bankers with the Federal reserve bank are not intimate.

When they need to borrow it is generally easier to go to their correspondent banks.

One of the chief services rendered to some of the member banks is the storage of their securities without a fee which would have to be paid to a correspondent bank.

It would doubtless be difficult for the group banks through their vote to obtain control of the Federal reserve bank if the unit bankers were interested. The unit banks, however, have been very neglectful of their voting privileges and many of them have not even cast their vote. The control of the Federal reserve bank is self-perpetuating. Those in command know whose terms will expire and before any interest is taken they have secured enough nominating votes to control the election.

There has been some discussion as to whether a majority of the directors in the Federal reserve bank should be directors in the group holding companies but I have never heard of any complaint of the treatment which the unit banks have received. Of course, the information which the group bankers receive through being in charge of the Federal Reserve is useful but it would doubtless be available to any one else who asked for it. Member banks would like very much to share more of the profits instead of seeing so much of them used for expenses which seem lavish to an impoverished country banker when he seeks a loan.

The independent banks are organizing for mutual protection. They are trying not to admit any which are not sound and which might close, for if an independent bank closes now, it can be used as a reason why a group bank would take its place. Some of the independent banks have been somewhat concerned over their connection with correspondent banks in the city which are the head of the group. There have been suggestions that they ought to try and form a clearing-house bank which should handle their business at the terminal point, but the most intelligent bankers realize that this proposition is futile, and that they will undoubtedly receive proper service from the banks which have served as their correspondents even though they are now members of groups and are in competition with them.

(The financial statement of the First National Bank of Fergus Falls is printed in full as follows:)

Statement of Condition of the First National Bank of Fergus Falls, June 29, 1929

RESOURCES	
Loans and discounts.....	\$1, 112, 995. 82
Overdrafts.....	72. 79
United States Government bonds.....	592, 299. 17
Other bonds and securities.....	934, 425. 28
Federal reserve bank stock.....	6, 750. 00
Banking house, furniture and fixtures.....	57, 187. 44
Due from United States Treasurer.....	5, 000. 00
Cash in vault.....	16, 447. 46
Due from banks.....	279, 293. 01
	3, 004, 470. 97

LIABILITIES	
Capital stock.....	\$100,000.00
Surplus.....	125,000.00
Undivided profits.....	14,035.08
Circulation.....	98,350.00
Certificates of deposit.....	987,693.16
Savings deposits.....	335,638.45
Certified and cashier's checks.....	7,116.26
Deposits of banks.....	126,473.01
Deposits subject to check.....	1,210,165.01
	3,004,470.97

Mr. ADAMS. I made a statement when the big groups were first started in the Northwest which outlined our policy and ideal. It had a very wide circulation, and did much to hearten the bankers who did not want to give up their banks. It was as follows:

The merging, consolidating, affiliating, and purchasing of banks throughout the mid-west has aroused widespread interest and no little concern among people who wonder what this great concentration of banking capital and control of the people's deposits means.

Under these circumstances it is not surprising that patrons and the public in general are inquiring what is going to happen to the First National Bank of Fergus Falls.

Fifty-seven years ago the men who founded Fergus Falls, founded this bank—George B. Wright, Henry C. Page, and James Compton. Their purpose was to provide banking facilities which were owned, controlled, and operated in Fergus Falls. It was the first national bank organized between the Twin Cities and the Pacific coast. For more than half a century it has been controlled and operated by men living in Fergus Falls and to-day all but four shares of its stock are owned by residents of Fergus Falls.

During this long period it has enjoyed the confidence and patronage of the people of Otter Tail County whether times were hard or money was plentiful.

To turn the control of these funds over to some great aggregation of capital, remote from Fergus Falls and Otter Tail County would seem disloyal.

We, therefore, wish to state that so long as the First National Bank of Fergus Falls continues to enjoy the confidence and patronage of the people in its territory and it is able to give satisfactory service, its ownership and management will remain in Fergus Falls. This statement is made with authority. Its capital is owned by men whose interests are interwoven in the business affairs of Fergus Falls and Otter Tail County and every share of stock is in the safety deposit box of its owner.

We believe that the interests of the community can be better served if the bank is managed by those who are a part of the community rather than by foreign interests.

A vast amount of propaganda has been set afloat about the value of a nationwide hookup of banks but we are unable to see why banks owned and controlled in the community which enjoy the confidence of depositors and have ample funds for their borrowers, which understand and sympathize with local conditions, can not give as good service as those under remote control.

We are confident that the people of Otter Tail County will show their appreciation of our stand by continuing to give this bank their patronage so long as it is worthy of it.

The CHAIRMAN. Mr. Adams, I was particularly interested in your reference to your investment in bonds, and I was further impressed by your reference later on, where you referred to the fact that you sought and received, as do other banks, the advice of correspondent banks in regard to the purchase of bonds and investments.

Banks, for the last five or six years, have been losers, to quite some extent, in their bond accounts?

Mr. ADAMS. Yes, sir; we have had to charge off a few. They have not been serious yet.

The CHAIRMAN. What class of bonds, in your section, do you buy?

Mr. ADAMS. The bonds, up to this time, have been too frequently sold by salesmen who come around representing one of the large banks with which we are familiar in Chicago, and particularly the Twin Cities banks. In our banks we have foreign bonds which are above the price we paid for them. We have quite a number of industrials and some railroads, but not so many municipals, because the rates they pay are somewhat lower than we can afford to buy them at, and so we have bought Governments.

The CHAIRMAN. But you have some municipals?

Mr. ADAMS. Some, but not many.

The CHAIRMAN. What do your records show in the past few years—an appreciation or depreciation?

Mr. ADAMS. In May, 1929, we had, I think, \$23,000 appreciation. In the October examination—after the New York trouble—we had dropped so that we are either \$3,000 below or just above. I have not the figures here. In the meantime, I think we charged off \$2,000 of coal bonds and we have lost \$2,000 in timber bonds.

The CHAIRMAN. It seems to me, as I analyze the situation now of the money market, the bond market, and the stock market, there is some reason why bonds have not reacted favorably. Have you analyzed the situation to know why, with the very cheap money we apparently have, bonds have not appreciated more than they have?

Mr. ADAMS. I live in the country and we have not very much information about that. We are not buying many bonds now. We were one of the early buying banks and we got stocked up. Of course the country is still stock-minded and while we do not have any loans on stock, there are always a great many men whom we know who buy stocks instead of bonds.

The CHAIRMAN. You rely very largely in the purchase of bonds, on the advice of correspondent banks?

Mr. ADAMS. We rely very largely on the good name of the banks. I recall that I went to see Mr. Traylor, of the First National Bank of Chicago, whom I know very well, and with whom we have carried an account for over 40 years, and I asked him to put me in touch with somebody who had some good bonds to sell that would be worthy of being in our bank. He referred me as requested and they helped me to select some \$75,000 worth of bonds and none of them have defaulted. We rely on the good name of the institution.

If the First National Bank of Minneapolis or of Chicago puts out an issue, we generally buy them. We have to rely on the large institutions, and we have found it a wise policy.

The CHAIRMAN. What class of foreign bonds do you buy?

Mr. ADAMS. We have a very diversified list. We have some Belgian bonds, some few in Germany, some very few in Italy, and quite a few French bonds.

The CHAIRMAN. I suppose you buy those because of the large interest returns you get?

Mr. ADAMS. I suppose we bought those bonds because they were sold to us. [Laughter.] We think that is our weakness now.

The CHAIRMAN. You are about to have another opportunity to buy some German reparation bonds. Mr. Traylor has had more or less to do with the issuance of those, but I do not know whether he is recommending them or not.

Mr. STRONG. Mr. Adams, you spoke about having stock in three other banks. Do you own control?

Mr. ADAMS. No, sir; we are simply a stockholder.

Mr. STRONG. It is not in the nature of a chain bank, then?

Mr. ADAMS. Absolutely not.

Mr. STRONG. You also spoke of a general selling of stocks by banks—that is, trying to sell stocks generally to the public. I should like to have your opinion as to whether or not that is indulged in from the standpoint of creating friends in a community or as a money-making proposition.

Mr. ADAMS. Selling listed stocks?

Mr. STRONG. The stocks of banks, generally. You spoke of the fact that bank stocks are being more generally sold than they used to.

Mr. ADAMS. The groups have been selling their stocks. The local banks never sell their stocks.

Mr. STRONG. I am not concerned what bank it is. Are they selling for the purpose of making friends, or for the purpose of raising money?

Mr. ADAMS. They wanted to raise capital and they naturally want to get a wide distribution on the theory that the more customers they have the more they are democratizing their banks.

Mr. STRONG. Is there anything in this thought, that it would be easier to sell stocks in a bank that is diversified than to ask some good investor to take the entire output?

Mr. ADAMS. At the time the stocks were underwritten in the Northwest by one of the banks there, their idea was that it was going over big and so they made arrangements to have it underwritten. I think Mr. Pillsbury is the one who insisted that the issue be underwritten, and the way it turned out it was very desirable to have it done. Our bank has never sold any bonds or stocks to anyone.

Mr. STRONG. What I wanted to develop was whether or not, in that combination of these banks, whether they are group or chain, there is not an amount of stock sold beyond the regular book value of the banks. Is there not a little stock watering in the proposition?

Mr. ADAMS. The testimony here shows that they paid for going business; but the distribution which some of them made by selling those stocks to their depositors and some bond buyers, was unfortunate, because they put it out at a price very much higher than the market is now.

Mr. STRONG. Well, it is not a process that if it was done in connection with some stock in a gold mine it would be called watered stock?

Mr. ADAMS. I do not know that it is watered.

Mr. STRONG. I know you hesitate to say so.

Mr. ADAMS. No; I do not hesitate to say so. I know the stock of the group holding company is very much larger than the assets they own, but they claim that that is for going business.

Mr. STRONG. Well, water in the stock?

Mr. ADAMS. Well, I would not want to concede that.

Mr. STRONG. I know you hate to do that, but if you issue stock in any institution—I do not care whether it is a bank or what it is—beyond the value of the business, claiming it is good will, that is, in a sense, watering the stock, is it not?

Mr. ADAMS. I should say so. Up to the time this new movement started, stocks in the Twin Cities banks were selling at less than their

assets, but the Bank of Italy came in there and started things moving up by buying 400 shares of the First National Bank of Minneapolis at a higher price than that at which they were previously sold, and at that time, with the inflation over the country and groups coming into the situation, the stocks rose rapidly.

Mr. STRONG. The argument has been made to me by gentlemen along the line that these group banks were wholly organized for the purpose of stability and the development of the community, but some of them, it seems to me, have been organized as a money-making proposition.

Mr. ADAMS. I do not think there is any doubt that those groups were organized with a view of increasing their business and increasing their power, the same as any other merger is made.

Mr. STRONG. The Bank of Italy came in and bought some of the stock?

Mr. ADAMS. The Bank of Italy came in and bought 400 shares of the First National Bank of Minneapolis. Up to that time the stock was selling at from \$280 up to \$300. The officers and directors wanted to keep it there, but the Bank of Italy came in and bought 400 shares at \$400 a share and quite a lot of publicity was given to it and it aroused quite an amount of interest, and from that time on the stock began to go up.

Mr. STRONG. Has the Bank of Italy still an interest in that bank?

Mr. ADAMS. I could not say.

Mr. STRONG. Did they buy any other stock that you have heard of?

Mr. ADAMS. I do not know.

Mr. STRONG. Did they secure any representation on the board of directors?

Mr. ADAMS. I think not.

Mr. STRONG. You do not know the purpose of their buying that stock?

Mr. ADAMS. If you are familiar with the Bank of Italy Corporation, which, to my mind, was the first investment trust to be organized, it was organized about 15 years ago with a capital of \$50,000,000. You may recall Mr. Giannini proceeded to buy large blocks of stock in the finest banks in this country. He also bought large blocks of stock in General Motors, General Electric, and United States Steel. The result was, inasmuch as he bought that stock before the inflation, the Bank of Italy Corporation made a tremendous profit. I do not know whether he still holds their holding in the First National, the National City of New York, the Shawmut of Boston, the First of St. Louis and the First of New Orleans, or not.

Mr. STRONG. I will ask you for your opinion on this proposition: Do you think, as a general proposition, the organization of group banks is for the purpose permanently of maintaining the groups or of eventually selling them out to branch banking groups?

Mr. ADAMS. I think they are organizing with the view to centralizing the power there in the Twin Cities. There was a difference of opinion about going into the group when the Northwestern started. The First National first announced they were not going in and so advised me, but later on, as they found the Northwestern gathering up the fine banks around the country, they found it advisable to follow their example.

Mr. STRONG. Now, to your knowledge, has there ever been any pressure or strong influence used to get these good banks to sell out to the groups?

Mr. ADAMS. No; I do not think they have been coerced. There has been persuasion. As I have stated—men from the cities visited the banks and asked if the banks were for sale, and would tell them the group banks were here to stay and the only thing to do was to get in while salvation was available.

Mr. STRONG. Would they offer stock in the parent bank or holding company in excess of what their stock was worth from a book value standpoint or from what its marketable value was worth?

Mr. ADAMS. I think they have paid very good prices in exchange, but that information is not available. Some of the banks have gotten a very good price and some not so good.

Of course at the time they were exchanging their bank stocks, group holdings were very much higher than now, so they thought they were getting more.

Mr. STRONG. The stock is not as valuable now as when it started?

Mr. ADAMS. There has been quite a depreciation. The Northwestern group started at \$50.35 and went to \$100 but is now back to \$50.

The First National group stock started at \$47.50 and went to \$64 and is now at \$28.

Mr. STRONG. So the investment in those bank stocks has not been so good? You do not need to answer that.

Mr. ADAMS. It has been like some other things that have gone down. I think, however, those stocks will come back. Of course, 1929 was a very good banking year and there were not so many losses and there were good rates of interest and a great many banks picked up profits in the increase in bonds. The situation will not be so good this year.

Mr. STRONG. A great deal has been said about the future of the individual bank from a depreciation of its assets, but from your statement it is very evident that the group bank stocks depreciated in value.

Mr. ADAMS. That stock has gone down because it is on the board. The stocks in the local banks have not gone down because there are no quotations of their stock.

Mr. STRONG. Let me ask you in regard to very small banks that are not accepted and taken in by these group banks. Gentlemen representing one of the group banks before this committee, said they expected to serve, such community, if permitted to do so, through branches. What is becoming of those small banks?

Mr. ADAMS. They are gradually being absorbed. Within 90 days three banks in an adjoining county were moved into county-seat banks. At Fargo I noticed the other day the Merchants National Bank had moved in three skimming stations, as we call them.

Mr. STRONG. And there are no banks left in those places?

Mr. ADAMS. No, sir; they do not need them and they would not succeed if they remained.

Mr. STRONG. It is simply where small banks were placed where there was no demand?

Mr. ADAMS. They were put out during the period of expansion and their earnings have been cut down because there are no profitable side lines now.

Mr. STRONG. If the large banks in the money centers continue to send out men to sell bonds to banks throughout the country as you described, what will be the result if those large banks in the money centers have teller windows all over the country?

Mr. ADAMS. They can not maintain them unless they maintain them at a loss. They are not worth maintaining under present conditions.

Mr. STRONG. What will be the result with respect to the selling of bonds?

Mr. ADAMS. Those small banks, of course, do not buy so many bonds.

Mr. STRONG. I mean with respect to using them as distributing agencies for the big banks that underwrite the bonds and get a good commission and sell them to individuals through their branches. Would not these branches be used as a kind of distributing agency?

Mr. ADAMS. I think the business would be so thin especially in the Northwestern States, it would not pay them.

Mr. STRONG. If there was any money to invest up there, they would be used for that purpose?

Mr. ADAMS. There is a great deal of money in our section that has gone into local utilities. We have, in our town, a local utility that lights about 15 towns. A very large proportion of its \$15,000,000 capital was raised in our territory. For a long time it was financed at home. Their bonds have been popular and that is one of the reasons why the deposits have not increased in the banks.

Mr. STRONG. Is that locally controlled, still?

Mr. ADAMS. Yes, sir.

Mr. STRONG. What I was trying to get at was the argument that is being made here that, through branch banking, either trade-area branch banking or branch banking within the States or within Federal reserve districts, they will be able to take care of the local communities where, at present, no banking can be successful.

Mr. ADAMS. They will not be able to take care of them, I believe, because, first of all, there is a type of borrowers they will not take and the good borrowers will, naturally, go into the centers.

Mr. STRONG. This teller window proposition will be practically what you call skimming stations?

Mr. ADAMS. Yes, sir. In our county there are probably seven towns that can maintain banks, and in those seven towns they will probably survive. If those seven communities in Otter Tail County are given good banking facilities, I think they can maintain them.

Mr. STRONG. In your opinion those banks could maintain and carry on without fear of loss?

Mr. ADAMS. Yes, sir; and make a fair return.

Mr. STRONG. Did you put the statement of your bank into the record?

Mr. FENN. Here it is, right here.

Mr. STRONG. In view of the very fine statement that has been made here this morning, I think that the statement of the bank with which this gentleman is connected ought to go into the record.

The CHAIRMAN. Without objection, the reporter will place in the record the statement referred to following the statement of the witness.

(The bank statement referred to is printed in full at the conclusion of Mr. Adams's opening statement.)

Mr. STRONG. The argument has been made here that the independent bank has been demonstrated to be a failure because of the fact so many banks have failed in the last 10 years. However, the bank commissioner of Oklahoma has made the statement that, as the result of his investigation, he finds that a very small percentage of the banks organized since 1920 have failed; that the failures have been due to the carrying over of frozen loans which are the aftermath of the war.

Mr. ADAMS. I think there is no doubt but that is correct.

Mr. STRONG. You agree with that statement?

Mr. ADAMS. Yes, sir. There is one point I should like to make at this time. Mr. Lord testified that he did not think it was possible for a unit bank to exist successfully in towns of less than 10,000 population. Now, it seems to me that the history of the banks in which I am interested—and there are many others that have survived and are doing well and are carrying on—demonstrates that that statement of Mr. Lord is not correct.

Mr. STRONG. You can have my testimony that I am sure it is not correct.

The CHAIRMAN. I might say for the information of the gentleman that practically all the heads of groups who have appeared before the committee have contended they could not succeed with a population of less than 5,000 or 6,000.

Mr. ADAMS. The history of our banks and some others has shown that it is not correct.

Mr. STRONG. I do not think, in my district, there is more than one city with over 10,000 and in the nine county seats with towns of less than 10,000, there are some very substantial and sound banks serving their communities and in no danger of failing.

Mr. ADAMS. There is another interesting situation, and that is there has been no lack of confidence in our community as the result of bank failures. A bank might fail on one side of the street, and the bank on the other side of the street has kept right on functioning. It may have closed later, but the trouble was that it died of malnutrition or something else.

The CHAIRMAN. Mr. Adams, this committee is proceeding with this study in the midst of an important evolution or revolution or change in banking in the United States. We are trying to ascertain whether the unit banking system is a thing of the past and whether it is right and proper that banking shall continue along the lines of the modern innovation of the chain, group, or branch banking. It is a practical situation that confronts this committee.

You are at the head, and have been for a number of years, of a country unit bank which has demonstrated its ability to exist and prosper, which seems to contradict the views of the heads of these new developments, that have appeared before the committee. You have made a very interesting statement here showing that you are keeping pace with the trend of the times in regard to banking development.

I am wondering whether you have any suggestion to make to this committee as to what we should do. The committee would very much appreciate your reaction on that as to whether the National Congress should act, and, if so, in what manner.

Mr. ADAMS. I can really see no good reason why we should have State and national banks. State banks have generally been started because they could be started with lower capital and it has been claimed they have been allowed to do certain things which they could not do under a national charter. The supervision of State banks has not been as thorough and as exacting as it has been in the national banking system.

Mr. DUNBAR. Could I ask a few questions right there?

The CHAIRMAN. Yes.

Mr. DUNBAR. I understood the gentleman to say there should not be both national banks and State banks. How are we to prevent that?

Mr. ADAMS. I did not say that, Mr. Dunbar.

Mr. DUNBAR. What did you say?

Mr. ADAMS. I said I could see no reason why we should keep the two systems. I was going to say that you people who maintain State rights are loathe to give up that power, but I can see no reason for having the two systems.

Mr. DUNBAR. There is no way to prevent it in the world, is there?

Mr. ADAMS. I understand your contention, but I do not know about that.

There is no doubt but that the unit banks will continue and can function and do their work and serve the communities and give the public a safe place to put their funds and give ample borrowing facilities, but I do think that they ought to stop licensing banks in places where they can not survive, and if they do, they should have adequate capital. It is perfectly apparent that a bank can not start with \$10,000 capital, build a building, get its equipment, and have anything with which to do business. They go into the red ink the very first year. If they will stop granting permits, it will help the situation. Generally the banks have not been started on account of the necessity for them. Some one wants to get into the banking business and he goes around and gets people to take stock and takes a note for it and the bank starts without adequate capital and can not possibly survive.

The CHAIRMAN. Take your own instance: Can you continue to meet the competition of chains or groups?

Mr. ADAMS. I have no doubt of it.

The CHAIRMAN. You feel in your own city that if the Northwest Banking Corporation or the First Bancorporation operates a bank in your city, you can continue to prosper and it will not interfere with your operations in the least?

Mr. ADAMS. We will have to keep on our toes all the time. They could possibly, if they were so minded, come in and make conditions hard by cutting rates and doing things of that kind, but I do not believe that that is probable.

The CHAIRMAN. Has it been your observation they are doing that anywhere?

Mr. ADAMS. No, sir.

Mr. GOLDSBOROUGH. Could I ask the witness just one or two questions?

The CHAIRMAN. Yes.

Mr. GOLDSBOROUGH. Mr. Adams, in the community in which I live in Maryland, the county of Caroline, on the eastern side of the bay, there are nine very prosperous banks in the county, with a population of 18,000. I am a director in several of them and in two of them the capital stock is \$12,000 each. They were both organized in 1909 and the stock in one is worth now about 7 to 1 and the other is worth about 5 to 1. We did not build a building to start with, but rented an office in an office building and waited until they get the money with which to building a building.

I notice in your written statement and in your oral statement that you seem to think it is necessary to build a building and put up a sign and that it is necessary to spend a lot of money before you go into the business.

Mr. ADAMS. It is not necessary, but it seems to me it is generally done. You have to have a vault and a safe in which to place your funds.

Mr. GOLDSBOROUGH. One of these banks, the Hillsboro-Queen Anne Bank—I give the name because I want to substantiate my statement—is located in a town of just a few hundred inhabitants, and the Goldsborough bank is located in a town of 150 inhabitants. I said the stock in one was worth about 7 to 1 and in the other 5 to 1. They have both been paying dividends of 20 per cent since 1915. Do you think it is fair to the smaller communities to take the position that you must have a capital of \$100,000?

Mr. ADAMS. It all depends on the management. If you get off on the right foot, and if you have men such as I have described, men of wealth in the community, whose money is in it and whose brains are available to the bank, they can succeed under those circumstances, and your banks over in Maryland have undoubtedly succeeded and made the large earnings which they have, because there was somebody with brains and conservatism running them.

May I ask how you made those large earnings? Was it by distributing bonds as a side line?

Mr. GOLDSBOROUGH. No, indeed. Those earnings have been made from strictly banking business and both banks have been exceedingly liberal in providing for the needs of their communities. But they have watched their loans very closely.

Mr. ADAMS. But you have not answered my question. Have your large profits been obtained from interest?

Mr. GOLDSBOROUGH. Almost entirely. In the last two or three years each one of them may have made five or six thousand dollars out of stocks.

Mr. ADAMS. Well, that would be 40 per cent made out of the one item.

Mr. GOLDSBOROUGH. But that is in only one instance.

Mr. BRAND. Are these banks located in agricultural communities?

Mr. GOLDSBOROUGH. Yes, sir.

Mr. BRAND. Off of whom have you made your interest—off of farmers?

Mr. GOLDSBOROUGH. Yes, sir; and some minor business.

Mr. ADAMS. What rate do you pay on savings?

Mr. GOLDSBOROUGH. Four per cent.

Mr. ADAMS. What rate do you charge over there?

Mr. GOLDSBOROUGH. Six per cent.

Mr. ADAMS. You mean to say on your deposits with a 2 per cent spread, you can make those earnings?

Mr. GOLDSBOROUGH. I certainly do mean it. It has been done.

Mr. ADAMS. But you say you made 40 per cent in one bank off of the sale of stock.

Mr. GOLDSBOROUGH. I said \$5,000. I said that was one instance since 1909.

Mr. ADAMS. How much are the resources of the banks—how much are the deposits?

Mr. GOLDSBOROUGH. The resources and deposits of the Hillsboro Bank are nearly \$800,000. The deposits in the Goldsborough Bank are \$550,000.

Mr. ADAMS. Those are very large deposits for a community as small as that. In the little bank I have mentioned here, we have had \$500,000 deposits.

Mr. GOLDSBOROUGH. Practically all the witnesses who have testified from the standpoint of the independent banks, have accented the necessity of increased capital stock—you among the number. It has always seemed to me, Mr. Adams, that the management of the institution had a great deal to do with it—more than the capital stock.

Mr. ADAMS. There is no question about that.

Mr. GOLDSBOROUGH. Let me finish my statement—it seems to me that the capital stock should be kept small enough to permit large enough earnings to keep the people happy.

Mr. ADAMS. You have described the situation accurately as fits the three little banks I have spoken about. But if you have a careless management, you must have capital to take care of it, and that occurs everywhere except possibly in Maryland. I dare say you have not paid all you have earned, but have put some in reserve to take care of those conditions.

Mr. GOLDSBOROUGH. Well, in one bank the capital is \$12,000, the surplus is \$75,000, and the undivided profits seven or eight thousand.

Mr. ADAMS. When you make large dividends, you are not making the dividends on the capital alone, but on the surplus. We can all build up a good bank if we start out on the right foot.

Mr. GOLDSBOROUGH. I think if you are going to have good banking service on the unit system, you must have a small capital. It does not make any difference what kind of business you start, whether a hotel or what not, you must keep the capital down, because if they do not earn fairly large dividends, the people will lose enthusiasm for it and it will go to pieces.

That is all, Mr. Chairman.

Mr. DUNBAR. The first paragraph in your very admirable statement of your ideas concerning banks states that a local bank well managed has no fear of being unable to compete successfully with the group banks unless unfavorable legislation is passed. Now, suppose a group bank was to hold the stock of a bank in your city, what unfavorable legislation do you have in mind that could be passed that would be detrimental to your bank?

Mr. ADAMS. I have not anything special in mind.

Mr. DUNBAR. Nothing special?

Mr. ADAMS. No, sir.

Mr. DUNBAR. I thought you had, or you would not mention it. That is all.

(At this point the committee went into executive session, at the conclusion of which the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

The CHAIRMAN. The committee will come to order. Mr. Seiberling, you will now question the witness.

Mr. SEIBERLING. I only have a few questions.

In the first place, I enjoyed your statement very much; I think it was a very admirable statement.

Assuming that something would have to be done with reference to the banking situation on account of the organization of the chain and group banks threatening the existence of unit banks, would you prefer to let that condition continue, or to go to branch banking within trade areas?

Mr. ADAMS. I think it would be better to have group banking, but if the groups are going to continue to buy the best banks, I think they ought to have the permission of the State banking supervisor or the Comptroller of the Currency before they can obtain control of the banks and take the ownership out of the community.

In Minnesota now we have a commission which grants the applications to start banks, and they can prevent wrong people from starting a bank, but when that bank has once started and has received the deposits of the public, then an outsider can come in and buy that bank and take it out of the original hands regardless of that outsider's character.

Mr. SEIBERLING. Coming back to my question, I understand you to say, then, that you favor group and chain banking in preference to branch banking in limited areas?

Mr. ADAMS. I think group banking is fairer to the community, because the institution is localized to some extent, and it would also pay taxes in the community, which the branch bank would not do.

Mr. SEIBERLING. If branch banking were permitted by Congress, would you make branches out of your affiliated banks, or would you leave them as they are?

Mr. ADAMS. It would be cheaper and more profitable for the bank at the county seat to put in a branch office than to maintain a bank with capital, and within a small area the bank at the county seat has ample capital to give it stability and, as I said, it would be more economical for us to operate those little banks as branches, but you take the taxation out of the community.

Mr. SEIBERLING. Then I understand that if you to-day had the right to make branches out of the affiliated banks you own, you would make them branches of your parent bank there in Fergus Falls?

Mr. ADAMS. No; I do not think I would. I think they have been successful in their careers, and the right thing would be to allow them to continue. But banking in the small places is not going to be sufficiently profitable in the future so that in instances it might be better

to establish branches which can be operated more economically if the community is to be served.

Mr. SEIBERLING. I suppose you will agree that you can operate a branch bank much more economically than you can a unit bank?

Mr. ADAMS. Yes; that is true.

Mr. SEIBERLING. Therefore, if we want to extend banking facilities to the smaller communities, branch banking would be much more feasible than unit or chain or group banking?

Mr. ADAMS. I would not want to concede that.

Mr. SEIBERLING. I am asking you which would be more feasible than the other.

Mr. ADAMS. A branch can get along without capital and it might be able to handle the business, but if there is enough business there they can operate a small unit bank.

Mr. SEIBERLING. You might have a community that is too small for a unit bank and yet you could maintain a branch bank there, as they do in England, for instance, and operate maybe for two days a week.

Mr. ADAMS. That is a new proposition to me, although in Vermont, where I was raised, there were certain banks that would go down to little villages and pay out money on cream days, and take in their deposits. Of course in these modern days, when everybody comes into the larger towns two or three times a week, conditions are different.

Mr. SEIBERLING. Do you think that the remote districts in your territory have all the banking facilities that they need?

Mr. ADAMS. I think they are more than ample at the present time. In the ninth congressional district—and that is where I live—115 banks have closed.

Mr. SEIBERLING. Do you still have enough left?

Mr. ADAMS. I have not the slightest doubt about that.

Mr. SEIBERLING. Are they so distributed that the people in your district can have adequate banking facilities?

Mr. ADAMS. I think that with the exception of one county that is the case. In Kittson County they had 17 banks, and I understand that there are only two left. It might be that they could stand one or two more there, but if you will notice this table which has been put into the record on page 354, you will notice that in some little villages three banks have closed, and there is no doubt that it was absolutely unwise to have ever permitted those banks to start there.

Mr. SEIBERLING. As I understand you statement, you think that if we let economic laws take their course, in due time things will so adjust themselves that these communities that we are worrying about will have such banking facilities as the necessities require?

Mr. ADAMS. That is my opinion.

Mr. SEIBERLING. That is all.

Mr. ADAMS. There are one or two things more I would like to bring up here, if I may.

The CHAIRMAN. I wish you would.

Mr. ADAMS. One of the reasons why closed banks have not paid more to the depositors has been that they have been kept open, or have been allowed to remain open, long after they should have been closed, and one of the ways of keeping them open has been for the superintendent of banks to take the funds which belong to a closed

bank and put them into a weak bank. Under the law which is on the statute books there, that makes a preferred claim for the State, and that has permitted banks to pay out funds longer than it should. Then, when the bank has closed, that preferred claim takes the bulk of the assets.

The CHAIRMAN. Do you think the same thing applies to national banks?

Mr. ADAMS. I am not familiar with that. No national bank has failed in our immediate neighborhood, and I do not know.

The CHAIRMAN. Of course, all that you said there could not apply to a national bank.

Mr. ADAMS. No.

The CHAIRMAN. But I meant more particularly the question of easing a bank along after it had become insolvent, in the hope that it would recoup itself.

Mr. ADAMS. I have never heard of the comptroller putting funds into such a bank.

The CHAIRMAN. I am not referring to that, but to the policy of closing a bank long after it had really failed, and I am asking you whether under your observation the comptroller of the currency has pursued that policy to the detriment of the bank.

Mr. ADAMS. Not very generally. There are only one or two instances in our territory where I thought a bank should have been closed before it was. Sometimes a bank will borrow, and the wise ones will draw the money out before the rest of the depositors.

The CHAIRMAN. My statement was prompted by reason of the fact that the statement has been frequently made here, as it was this morning, that these banks that are failing so rapidly now, really failed several years ago because of the conditions immediately following the war, and the question naturally came to my mind as to whether or not it might have been wiser to have closed those banks when the real failure occurred, 5, 6, or 10 years ago, than to have strung them along during this period?

Mr. ADAMS. That would have been much fairer, because it has allowed certain people to draw out 100 cents on the dollar, while those whose money was remaining got very much less.

The CHAIRMAN. It has tended practically to give a preference to certain people who withdraw their money.

Mr. ADAMS. It has given a preference. One bank which closed in our territory, was being supported to some extent by borrowed money from the corresponding banks. The correspondent banks finally took the position that they were willing to help keep the bank open, but not willing to lend any more money to enable the bank to make preferences.

The CHAIRMAN. What is your analysis of the reasons for the failure of these country banks? I would be glad if you could enumerate the major reasons for those failures?

Mr. ADAMS. In the first place, they were established when there was no occasion for their establishment. In the second place, they had insufficient capital, and the capital was never paid into the bank which was supposed to be paid in. The banks were put into the hands of young, inexperienced and untried men, and their idea was to make the bank grow as fast as possible, as a result they gathered into those banks a lot of money which did not normally belong in the com-

munity. They offered high rates of interest, and they advertised in national papers, especially in religious papers, and they drew a large amount of money from the East, which went to those banks because they would pay 6 per cent interest on deposits.

The CHAIRMAN. You are speaking of banks in your particular territory?

Mr. ADAMS. Yes; all of my remarks apply to the territory where I live, because that is the only place with which I am familiar. But, after a while, money became tighter in the East; it was not because they had begun to lose faith in the western banks, but they needed the money at home, and when they started to draw out that money, the banks out there did not have any cashable paper so that they could collect at the time when their deposits were being pulled out.

The CHAIRMAN. What period are you speaking of?

Mr. ADAMS. From 1918 to 1925—that is the time when they began to lose money and the trouble began to occur.

I wish Mr. Goldsborough were here, because he made a point in favor of little banks of \$10,000 or \$12,000 capital, but in looking at the directory I find that those banks have a surplus of \$75,000, so that they have ample capital to take care of ordinary losses. More than that, if a bank is going to be established, the owners of the bank ought to furnish some of the capital and not expect the depositors to furnish it all. Where we have had those weak banks, if a person wanted to use his money to buy a bond or property, they disliked to give up those deposits and they urged depositors to let the money remain and they would perhaps give them an extra per cent.

The CHAIRMAN. What rate of interest have the banks been paying in your section on deposits?

Mr. ADAMS. Four per cent is the general rate.

The CHAIRMAN. On these eastern deposits?

Mr. ADAMS. I think they paid as high as 6 per cent. One year we had surplus money and we sent it out to Dakota and a little into Montana. I picked out about 40 banks and sent \$1,000 apiece to those banks on certificates of deposit running about four months, and made them due just about when they began threshing. Many banks came right back and wanted to know if we did not have more to send them, which made me more or less suspicious. There was always a disposition with those little banks to get funds any way they could to increase their loans, not realizing that the funds would have to go back.

The CHAIRMAN. Has it been a general practice in the East and through your section for the larger banks to send money to those small banks during flush seasons?

Mr. ADAMS. There has been some. One of the reasons for some banks failing has been that the funds were taken out of prosperous communities and sent to Dakota and Montana in order to get the higher rates. A good many of those banks were in charge of young men who went out from our territory and they drew from the home country a lot of money which was lost when their banks closed.

Mr. SEIBERLING. I would be very much interested, Mr. Chairman, if you would ask him what the average rate is that they charge on loans.

The CHAIRMAN. What is the rate of interest charged on loans?

Mr. ADAMS. In Minnesota the legal rate is 6 per cent; the maximum rate is 8 per cent. I notice that the record here states it is 10 per cent, but it is 8 per cent, and the law of usury is that if you charge a usurious rate, you lose the principal and interest. In our territory a great deal of money is loaned at 6 per cent to the good concerns that carry an account. We do not require a compensating balance as they do in a good many places. Seven per cent is as much as any one is willing to pay, and we charge 8 per cent only on the small \$50 and \$100 loans. There ought to be a provision allowing a higher rate on those small loans, for you can not loan \$50 and put it on the books and send two or three notices and make any profit at 8 per cent. On those small loans, there should be a provision permitting the charging of a higher rate.

The CHAIRMAN. Some banks do make a minimum charge of 25 cents or 50 cents—

Mr. ADAMS. It is usurious; we have always had to take 19 cents when we should have had 25 cents. At a recent meeting at Fergus Falls, a district bank meeting, one of the bankers said that he charged 50 cents for making out the note, and then he charged interest in addition to that. I think that would be usurious.

The CHAIRMAN. Do you make a service charge to your depositors keeping small accounts?

Mr. ADAMS. We charge 50 cents a month if they do not carry a balance of \$50. The result of that was to eliminate some small accounts which should not be in the bank, and it induces the others to carry an adequate balance.

The CHAIRMAN. Is your bank making a collection charge on either checks or drafts or bills sent in for collection by other banks or individuals?

Mr. ADAMS. We have to clear all checks under the Federal reserve law without exchange, and we sell very few drafts.

The CHAIRMAN. But, on the collection of drafts sent to your bank, you are permitted to make a charge.

Mr. ADAMS. Yes; we charge 10 cents a hundred for making remittance. The chain stores get a 5-cent rate from a good many banks.

The CHAIRMAN. You were referring this morning to the loanable funds of your bank. Is it the general practice of the banks in your territory to buy bonds?

Mr. ADAMS. They have been buying some bonds lately, for they have realized the necessity of having something—

The CHAIRMAN. As a secondary reserve?

Mr. ADAMS. As a secondary reserve. Of course, they slipped somewhat, and they have not bought sufficient high-class bonds.

The CHAIRMAN. What percentage of the assets of the banks in your section of the State would you say is in bonds?

Mr. ADAMS. I do not believe there is 10 per cent of the deposits in bonds.

The CHAIRMAN. Do the banks buy commercial paper through the large city markets?

Mr. ADAMS. We used to buy it, but the rate has been so low since the refinancing by those large concerns which put out preferred stocks and bonds, that we switched over to bonds, instead of buying commercial paper.

The CHAIRMAN. Do your banks make collateral loans on listed stocks?

Mr. ADAMS. The examiner has told me that we have more collateral loans in our bank than there are in any of the other banks that he examined, but that is due to the fact that a good many people in our town have bought securities in the local utility companies and we have educated them to bringing in some security when they want to borrow.

The CHAIRMAN. What are the principal reasons for the success of the management of your bank in your locality when so many other banks have failed in that same locality?

I hope you will not be modest in answering it.

Mr. ADAMS. The bank has been owned by the directors and controlled by the directors, and the directors are always around; they always come in and visit and gossip every day. We have been lending their money, and we tried to be careful about it, and we have kept down the operating expense and have had a pretty good class of business. As the new banks came into the country, they were eager to get business, and if we were a little bit stiff in trying to do what was right, the customers would drift into those new banks and they took punishment.

The CHAIRMAN. It is largely management?

Mr. ADAMS. I feel it is entirely management.

The CHAIRMAN. And with good management, of course, comes diversification of loans and assets, and not putting all of your loans in one class of paper. Would you say that that was a factor?

Mr. ADAMS. Yes; we try to diversify, and in buying bonds we always buy in small amounts and diversify them.

The CHAIRMAN. Approximately, what is your average amount of reserve carried against deposits?

Mr. ADAMS. We have some large customers who hit us very hard, and we always try to have \$200,000 or \$300,000 above the necessary reserve to take care of those heavy drafts.

The CHAIRMAN. Do you ever borrow from the Federal reserve system?

Mr. ADAMS. We never borrowed in the 58 years from either the Federal reserve bank or a correspondent. I have never been in the Federal reserve bank but twice. The main advantage that we get from the Federal reserve bank is that they bought our Government bonds for us and they stored them without compensation, whereas the correspondent banks charge \$1 a thousand for storage and clipping the coupons.

The CHAIRMAN. Of course, you realize that we have a very active market, not only in the industrial and railroad stocks but in recent years in bank stocks. Are bank stocks in your locality dealt with pretty generously now?

Mr. ADAMS. None at all except in the group banks.

The CHAIRMAN. Do the rank and file of the people buy and sell those stocks?

Mr. ADAMS. No; they took those stocks when they were offered. I think a large amount of stock which has come out from the group holding companies was the stock which the country bankers got in exchange for stock of their own banks. It was stated here that they would not sell out for money, but that they wanted to get into the

group holding company. That might have been the case in the beginning, but later on a good many of the bankers perhaps were in debt and when they exchanged their bank stock for the stock in the group banks they needed to raise money and they offered some of their stock for sale. It seems to be the practice now where a group takes over an individual bank to have an agreement not to put that stock on the market for six months.

The CHAIRMAN. There has been a pretty wide circulation of bank stocks coming from the large centers throughout the country. I know that in my section of the country, farmers and individuals of small means have recently been buying New York City bank stock. Does that same practice prevail in your section of the country?

Mr. ADAMS. To a very limited extent. The National City has got some stockholders in our locality, and we have one loan in our bank secured by National City. We took that when it was about 400—

The CHAIRMAN. That is, the price of the stock was \$400?

Mr. ADAMS. Yes.

The CHAIRMAN. On what basis did you make the loan?

Mr. ADAMS. About \$300, and yesterday the stock was at 157. So the loan is below the margin, but we hope the party is going to pay it.

The CHAIRMAN. How does National City stock happen to be held in Minnesota? Is there a campaign out there through salesmen to sell that stock, or did the individual who, for instance, sought the loan that you refer to, buy it of his own volition, or was he persuaded to buy it?

Mr. ADAMS. All of the large banks have security companies and their agents are traveling through the country selling their securities, and, of course, those securities which are put out by these subsidiary companies really travel on the good name of the banks, so that the average person, in buying a stock from a subsidiary of a New York bank thinks he is really buying it of the bank—that is, they do not separate the subsidiary from the bank.

The CHAIRMAN. Take this particular case that you referred to: Was that stock sold by the National City Co. to your customer, as far as you know?

Mr. ADAMS. It was probably sold by one of their representatives.

The CHAIRMAN. A representative of the National City Co.?

Mr. ADAMS. Yes.

The CHAIRMAN. Which is an affiliated company of the National City Bank.

Mr. ADAMS. Yes.

Mr. GOODWIN. The National City Co. has an office in Minneapolis, have they not?

Mr. ADAMS. Yes. I was tipped a while ago to buy Chase. Their representative called on me a while ago and said they were going to take on a big company, and suggested that I ought to have some stock in the Chase National.

The CHAIRMAN. That is, the representative of the Chase Securities Co. suggested that to you?

Mr. ADAMS. Yes; the representative of the Chase Securities Co., that I ought to have some of the stock of the Chase National.

The CHAIRMAN. But under this plan that is developing in the country of building up banks in trade areas under the group or chain plan, for instance, like the First Bank Stock Corporation and the Northwest Bancorporation, and similar organizations in Buffalo and other points, their representatives have indicated to us that they were preempting their territory, that they reserved the right to do all kinds of banking business, and it has been suggested that the building up of those concentrated units would deprive New York of the opportunity to sell its securities within that territory. The other day, when Mr. Wiggin was here, the chairman of the board of governors of the Chase Bank, he rather was of the opinion that it would not interfere with their opportunity to sell securities. It has been argued here to the committee that the reason that these groups have paid what looked like excessive prices for the stock has been due to the value they saw of an opportunity of preempting territory in which to sell for all time investment securities, on the theory that there would be more money for these groups in the distribution of securities and the profits derived from them, than there was in the legitimate banking business of those localities.

Being located in one of those districts, what would be your observation in regard to that? In other words, would you be more inclined to buy your securities, through Minneapolis and St. Paul, from one of those groups or would you continue to do business with your correspondent banks in Chicago or New York?

Mr. ADAMS. We have always bought through the Twin City banks whenever we could, but we would not buy a bond of them if we could buy a better bond from an eastern bank. We would naturally give the banks in our own section the preference, but there are a good many issues that they might not have.

The CHAIRMAN. So you do not think that the building up of these big groups in any given area would preempt exclusively to them the right to sell the bulk of the securities in their particular area?

Mr. ADAMS. I do not believe the New York banks are going to abandon the territory.

The CHAIRMAN. Is it the practice of the country banks like yours, for instance, in that territory, to make loans with these chain or group bank stocks as collateral?

Mr. ADAMS. I do not think we have a loan of that kind in our bank. There may be one or two employees who got an allotment of that stock and are paying for it on the installment plan. When these stocks came out, there was quite a wide distribution and a good many employees in banks throughout the State wanted to get a few shares, and it may be that in one or two cases we are carrying some of that in our bank, but very little.

The CHAIRMAN. As I understood your testimony this morning, and I was out part of the time, you believe that the unit banking system can, when properly managed, continue to exist in competition with these other institutions?

Mr. ADAMS. I have no doubt about it.

The CHAIRMAN. Do you care to express yourself on the question of extending branch banking to trade areas, as suggested by the Comptroller of the Currency?

Mr. ADAMS. The independent banks of Minnesota are very much opposed to it and are very much opposed to having branches come into a territory which is already filled. If they were permitted to come in, they would perhaps skim the better business; they might pick up some of the larger borrowers of the highest type, and we feel now that we have all the banking institutions there that the community needs, and that if we are let alone we can take care of all the needs of the country.

The CHAIRMAN. That raises a very pertinent question—if let alone. What do you mean by that?

Mr. ADAMS. Well, we have wondered whether there was legislation here which would give the group bank a preference. We have not supposed that would be the case.

The CHAIRMAN. You mean legislation in Washington?

Mr. ADAMS. Yes.

The CHAIRMAN. But this group plan is already proceeding under State authority.

Mr. ADAMS. Of course, but they are looking for national legislation.

The CHAIRMAN. What kind of national legislation?

Mr. ADAMS. I mean legislation governing the national banks. Perhaps I do not make myself clear. They apparently have the purpose of getting legislation which will legitimize the group idea or the branch idea.

The CHAIRMAN. Pretty nearly all of these men have suggested to us that the group or chain idea was just a step and that if branch banking were permitted, either nation-wide or under Federal reserve districts, or state-wide or trade areas, that they would overnight convert their chains or groups into branches.

Is that the kind of legislation you think that they are looking for, the extension of the radius in which they can do branch banking?

Mr. ADAMS. I do not think the holders of group banking want that. I think they feel sure of their territory under the present system, because if branch banking became general, the New York banks, Chicago banks, and other banks, including St. Louis banks, would naturally come into the territory if there was a good opening.

The CHAIRMAN. Do you not think that there is danger of New York or Chicago groups coming in and seizing control of these existing groups? Do you not think it is just as easy to do that as it would be to get control through branch banking?

Mr. ADAMS. There is a general belief that there is danger that eventually the large banks in New York will pick up the groups; I think the groups are afraid of that, to some extent.

The CHAIRMAN. When Mr. Wiggin was asked what a trade area is, he could not tell the committee, but he indicated that the trade area of the Chase National Bank was the United States, and perhaps the world.

Mr. ADAMS. The trade area of the First National Bank of Fergus Falls is Otter Tail County, and we can not operate branches outside of that to advantage.

The CHAIRMAN. One peculiar thing about this question of limitations is that we limit where the banks can do business, but we do not limit the customer as to where he shall do his banking business.

Mr. ADAMS. A trade area is very difficult to define. Fergus Falls is undoubtedly in the trade area of Minneapolis. Chicago and Minne-

apolis are undoubtedly in the trade are of New York, so I do not see how you are going to define that term.

The CHAIRMAN. Do you think that if we should leave it to the Comptroller of the Currency, the Federal Reserve Board and the Secretary of the Treasury to define the term "trade area", that they could define the areas in which these banks should operate?

Mr. ADAMS. That might be a fair proposition, but, of course, we would not want the Federal reserve bank of our district to do that, when the majority of its board of directors are members of holding companies.

The CHAIRMAN. Then there is danger of the control of the Federal reserve system by these groups?

Mr. ADAMS. They have practically all the members now.

The CHAIRMAN. That is pretty conclusive evidence, I would think, that there is danger.

Mr. ADAMS. Of course, the unit banks have never paid any attention to who were members of the Federal reserve bank, and a good many of them never voted.

The CHAIRMAN. Do you have any affiliated institutions?

Mr. ADAMS. The First National Bank of Fergus Falls?

The CHAIRMAN. Yes.

Mr. ADAMS. No, sir.

The CHAIRMAN. You have no securities companies?

Mr. ADAMS. We have the First National Investment Co., which we organized to take assets out of the bank which were not permissible. At one time we purchased certain preferred stocks, and when the examiners came around they called our attention to the fact that they were not permissible, so we took them out and put them into this investment company and we acquired some assets of a character which could not be carried in the bank and we found it advisable to carry them in the First National Investment Co.

The CHAIRMAN. Do you buy and sell securities through that company now?

Mr. ADAMS. No, sir.

The CHAIRMAN. It is strictly a holding company for those securities that you can not legally hold in your bank, is it?

Mr. ADAMS. Yes. Sometimes when some of the local power stock comes in, we buy it and carry it for investment, but we have never distributed any stocks and we have never sold anything and if anyone comes into the bank and wants to buy a bond, we have no recommendations. We show them our list and if they want anything we have, we will order it.

The CHAIRMAN. The stock of your investment company is owned by the same stockholders and in the same proportion as the shares of your bank?

Mr. ADAMS. Yes, sir.

The CHAIRMAN. So that every stockholder that has stock in your bank has a corresponding interest in your securities company?

Mr. ADAMS. Yes.

The CHAIRMAN. What is the capital of your securities company?

Mr. ADAMS. \$12,500.

The CHAIRMAN. We have pending here before the committee a bill proposing that where a national bank has affiliated companies, the examining supervisor, which in the case of the national banks

would be the Comptroller of the Currency, should have access to the records of that affiliated company. Do you see any objection to such a plan as that?

Mr. ADAMS. If the stock is owned by the bank, I think it should be examined, but if it is owned by the stockholders, I do not see any reason why they should have that supervision.

The CHAIRMAN. Take, for instance, a national bank that has a securities company; it might become so involved in speculative transactions that it might affect the solidity of the bank. Would you not think that it is rather to the advantage of the bank to have that examination?

Mr. ADAMS. My statement is that if the bank has a securities company which the bank owns, there is no reason why that should not be examined just the same as the collateral which the bank has for its loans.

The CHAIRMAN. No matter under what law that securities company may be organized, whether it is organized under the banking laws or the corporation laws, or the laws of some other State?

Mr. ADAMS. If it is a part of the banking capital, it should be supervised.

The CHAIRMAN. Do you think that an affiliated company like that should have the right to buy the stock of a national bank, whereas the national bank is prohibited from owning its stock or dealing in its stock?

Mr. ADAMS. I have always believed that the stock of a bank ought to be owned by the men of the community whose money is in it, and whose wealth is behind the bank, and should not be held by subsidiary companies, where there is not any double liability or where there is not any power or capital to back up the bank when it is in trouble.

The CHAIRMAN. Do you think we should prohibit the ownership of national bank stocks by corporations and investment trusts and confine that ownership to individuals?

Mr. ADAMS. I think that would be preferable. I do not believe that this investment-trust proposition with respect to bank stocks has worked to the good of the banks.

The CHAIRMAN. It indicates a spirit of speculation.

Mr. ADAMS. There would not be if that stock were held by the men who are running the bank and looking after it.

The CHAIRMAN. Do you think that a bank would be more secure, then, if the majority of its stock or 100 per cent were owned by the management?

Mr. ADAMS. I think that would be very much better.

The CHAIRMAN. In other words, you are suggesting that the management of a bank takes more seriously its job if it owns the bank?

Mr. ADAMS. Yes; and their very good names are behind it. Of course, there has been an awakening now, for our Supreme Court has recently made a decision which held that the directors must know what is going on in a bank, and I think in one case there was a decision to the effect that if they did not know of their own knowledge, they should hire an auditor to ascertain it for them.

The CHAIRMAN. Your statement in regard to the ownership of the stock by the management is most interesting. I may have difficulty in finding the reference to it in these hearings, but I would say that it has been indicated that the ownership of most of our large banks is

not lodged in the management but that as a general thing probably less than 10 per cent of the stock of any one of our large institutions is held by the management.

Mr. ADAMS. I think it would be much better if the greater part of the stock was held by the management. I know that years ago the First National Bank of Minneapolis was in trouble, and Governor Pillsbury, one of the very large owners of the stock, and John Martin, were behind the bank and put it on its feet, but if that stock at that time had been widely scattered, nobody would have put it back on its feet as those two men did.

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

Mr. GOODWIN. There is only one question that I have in mind.

It has been testified before this committee that there is no danger that the New York banks or financial interests will ever get control of the ownership of the stock of the group banks, partly for the reason that there is local pride in the ownership and operation of group banks in the different localities. Would it not be an easier matter for the New York interests to purchase the control of the stock of the holding company of the group companies than it would be if they had to go out and buy these different banks?

Mr. ADAMS. I think it would be very much easier to gather in the stock of the holding company than it would be to go out and buy the individual banks.

You raised that question of local pride. I think it was a serious error for Duluth, and possibly for St. Paul to permit their banks to go into a group, because Minneapolis is recognized as the head and those other towns have become way stations, so to speak, in finance.

Mr. GOODWIN. In those instances the matter of local pride did not protect the local ownership of the bank.

Mr. ADAMS. It did not prevent them from going in the group, and I think it was a mistake for them to do it.

Mr. GOODWIN. From your testimony I gather that you have felt that the independent unit banks in this country, whether in the agricultural sections or other sections, with adequate capital and proper and prudent management, can succeed in competition with either branch or group banks?

Mr. ADAMS. I think so. Of course, branch banks would make it harder, and if group banks started out to destroy the individual banks, they might possibly make it hard for them. I do not know of any way of preventing the holding companies from buying more banks. It has been suggested that you might have a law that would prevent them from acquiring more than a certain amount of the stock, but I do not think that would be workable.

Mr. GOODWIN. At any rate, we have no law that in any way interferes with any group buying all the banks they want to and are able to purchase?

Mr. ADAMS. No.

Mr. GOODWIN. Would there be in your opinion any opportunity in a group system of banks to restrict credit to those who might be in competition with the officers or directors of the group banks?

Mr. ADAMS. There might be, but at present they are all high-minded men, and I do not believe that that would be done.

Mr. GOODWIN. That is a remote possibility, but it is possible?

Mr. ADAMS. It is possible, of course. A bank can always deny credit to anybody that it wants to on perfectly valid grounds, but I do not think it is generally done. If a loan is good, they are generally glad to get it, especially for a customer of the bank.

May I ask a question?

The CHAIRMAN. Certainly.

Mr. ADAMS. It is contended that if a person goes into a bank and buys a draft, and is not a depositor of the bank, that that draft should be paid where there is the money in the bank on which the draft is drawn, notwithstanding that the bank closes before the draft reaches destination. Is there any legislation along that line?

The CHAIRMAN. No; we have pending before the committee now a proposal to give a preference to shippers of grain, for instance, who draw a draft on a customer at some distant point and who sends that draft to the bank in the town where the consignee is located and where after the draft has been paid by the consignee and before the money is remitted to the shipper the bank fails. It is proposed that in liquidation that shipper should be given the preference, that he should have a preferred claim and it should be paid in full.

Mr. ADAMS. It is contended that if banks are going to sell drafts in competition with express companies and in competition with the post office, that the draft ought to be paid if the money is in the bank at the time it is drawn.

The CHAIRMAN. In other words, the bank in that capacity is simply acting as a trustee. What is your own thought in regard to that?

Mr. ADAMS. I think if a person goes into a bank and buys a draft and the money is in the bank on which the draft is drawn, that that draft ought to be paid if the bank fails before the draft gets to its destination. If that is not the policy, then the public ought to buy express orders, or money orders.

The CHAIRMAN. That is a form of segregation of bank assets. Would you favor the segregation of banking assets so as, for instance, to give the savings bank deposits, or money that might be termed as "belonging to the widows and orphans," a preference in case of a bank failure as they do in some States? For instance, California has a segregation law, a preferential form of securing certain depositors.

Mr. ADAMS. I am glad you brought that question up, because the bulk of our savings deposits are in the form of certificates of deposit. That is the usual form in the West, and that is the main supply of money in the banks.

The CHAIRMAN. As to this suggestion with respect to the segregation of the assets, it would not matter whether you had a savings book or a certificate of deposit; it would apply to the setting aside from the total volume of assets of your savings accounts.

Mr. ADAMS. That would force those savings to be put into certain types of investment, and it would remove from the use of the community a very large amount of the assets of the bank.

The CHAIRMAN. Then you would not favor that?

Mr. ADAMS. It would not be workable in our country at the present time, where there is a different condition than there is in New England. In New England the people put their money in the savings bank, and it has not been their habit to invest their funds, but to let the bank invest them. In the West we have never been able to build up savings

for the reason that the public is investing its own funds; they are constantly drawing the funds out in order to buy a bond or a mortgage or something of that kind.

The CHAIRMAN. Do you think then, that it is all right to subject the life savings of a widow who might have invested them in a national bank to the same risks and hazards that the other depositors have? In other words, do you not think that there should be an additional safeguard thrown around what are sacred trust funds, and not subject them to the hazard and risk that the commercial business is subjected to?

Mr. ADAMS. I think that would be entirely proper, but I have always taken the ground that when a widow or a child or an individual puts money into a bank, it is our duty to return it to them, and we owe the same obligation to one as to another, although I would hate to see an elderly person or a child lose his money. If a child once loses his savings account he becomes afraid of banks.

The CHAIRMAN. Your remark reminds me of a letter that came to me yesterday morning from a citizen in the State of Illinois who has been unfortunate in having had deposits in three national banks which have recently failed, and he raises the point that any depositor who puts his money in a national bank ought to have assurance from the Government of the safe return of his money, that the term "national bank" implies to the innocent, the ignorant depositor that the Government is back of it and that therefore we should, through an appropriation, reimburse all of the depositors who have lost money through the failure of national banks.

Mr. ADAMS. I do not believe that the Government should guarantee the funds of national banks, but I do believe that the Government should use every effort to make those deposits safe.

The CHAIRMAN. Through the enactment of proper laws and seeing to it that those laws are strictly adhered to, through supervision?

Mr. ADAMS. If the supervision is vigorous enough, I do not see how a bank can fail. It is hardly possible that enough damage can be done between examinations to permit a bank to fail.

The CHAIRMAN. Have you any suggestions to make to this committee as to how that examination could be improved?

Mr. ADAMS. It may not be practicable, but I have always believed that if they had an advisory board in a district, they would get onto a great many things that the examiners do not learn, and I have always thought that if the State banking department had a secret service, or, rather, a service outside of the bank examiners just going into a town and listening, that they would hear a great many things which would be of interest to the department. The department seems to be the last to learn of certain conditions which exist in banks and which everybody else in the community knows, and if somebody followed up the examiners when they came to the town and checked up on what was going on, I think that many times they would be in a position to notify a bank that it has got to cease doing those things, or close.

The CHAIRMAN. The suggestion has been made by some of the people who are opposed to chains and groups and to the extension of branch banking that, however, branch banking should be extended state-wide in those States that now permit branch banking or else

many of the national banks will leave the system. Would you think we could safely consider that proposition?

Mr. ADAMS. I do not get the question.

The CHAIRMAN. In other words, would you favor the extension of branch banking in those States where branch banking is permitted by State banks, the extension of branch banking in such cases to be only state-wide?

Mr. ADAMS. If you are going to have it in one system, I do not see why you should not have both.

The CHAIRMAN. In certain States, they now permit state-wide branch banking, whereas the national banks in those States are now prohibited from engaging in branch banking beyond certain limitations, that limitation being that they may not extend beyond the confines of the city in which the parent bank is located.

Would you not think it advisable to extend branch banking in those States that now permit it to a state-wide basis?

Mr. ADAMS. I think that that is the case in California now. I think the Bank of Italy has branches everywhere.

The CHAIRMAN. They have, but, of course, we have limited them now to the city in which the parent bank is located. They can no longer have state-wide branches, but the State banks can have, but they are denied membership in the Federal reserve system when they do.

Mr. ADAMS. I do not see why the national banks should not have the same privilege as State banks.

The CHAIRMAN. You would see no harm in extending that right?

Mr. ADAMS. It is going to make it harder for unit banks, probably. I think possibly in California the unit banks have taken care of themselves. I have spent a great deal of time studying the situation out there, and there are a good many unit banks that are taking care of themselves.

The CHAIRMAN. Have you any more questions, Mr. Goodwin?

Mr. GOODWIN. Just one.

It has been suggested to this committee that to make national banks more attractive to the depositors, the franchise tax now paid by the Federal reserve banks to the Government be used as a fund to pay the depositors in closed banks. Have you ever given thought to that subject?

Mr. ADAMS. I do not see any reason for guaranteeing bank deposits in any form. I can not see any more reason for guaranteeing a deposit in a bank, as I suggested in one of our town meetings, than that the people of that town should guarantee all the accounts in that town. We cured them of the idea that a good bank should take care of bad banks. I believe that if we have proper capitalization, proper management, some restriction on speculation, and a thorough examination, that conditions will rectify themselves. These failures have been most prevalent where speculation has been the strongest.

The CHAIRMAN. Would you favor the larger distribution of the earnings of the Federal reserve banks to member banks?

Mr. ADAMS. I do not see any reason why that money should not be returned to us. We are obliged to keep our deposits there without getting adequate return, and, when the Federal reserve banks make those profits, I do not see why they should not be paid to the member banks.

The CHAIRMAN. You do not think that there is danger or the possibility that if that course is pursued it would put the Federal reserve banks into competition with the member banks?

Mr. ADAMS. I do not know enough about the Federal reserve system to pass on that question; I have never come in contact with it.

The CHAIRMAN. It takes arbitrarily the investment of a little over a billion dollars of the assets of the Federal reserve system now to pay its operating expenses and dividends, and if the banks were depending on the Federal reserve banks for the distribution of large earnings, the Federal reserve banks would have to take those reserves and invest them in securities, buying commercial paper or securities which were legal and thus put them into competition with the member banks.

Mr. ADAMS. If the Federal reserve banks were distributing some of those funds, they would have to operate more closely than they now do with their expenses.

The CHAIRMAN. Of course, the Federal reserve management can make money or not to suit themselves. Arbitrarily we will say that about two billion dollars is sufficient reserve, but no one knows whether that is too much or too little, and, of course, if you invest all of that reserve into the kind of securities that are authorized, such as acceptances, bankers' bills and that class of paper, might it not tend to tie up the liquid assets of the Federal reserve system?

Mr. ADAMS. I do not see why those funds could not be carried in Government bonds.

The CHAIRMAN. Do you think Government bonds are liquid in an emergency?

Mr. ADAMS. The most liquid things I have ever had in my bank.

The CHAIRMAN. When we passed the Federal reserve act, we were led to believe that we had to get away from Government bonds as security for circulating media. Of course, we have not done it, and by the use of Government bonds in the Federal reserve system we have continued to have outstanding from a billion and a half to two billion of Federal reserve notes, and it would seem to me that perhaps instead of following out what was intended under the Federal reserve act, we may have continued it and even enlarged upon it, because we still have out \$700,000,000 of national bank currency which has not been retired and we have an average of \$1,750,000,000 of Federal reserve notes and we note from year to year a constantly increasing amount of Government bonds held by the Federal reserve system.

Now, back in 1920 to 1922, we discovered that the buying and selling of Government bonds by the Federal reserve system had a very material effect on the price of money; it completely upset the money market to purchase \$480,000,000 of Government bonds by the Federal reserve system, and it had something to do with the price levels.

Mr. ADAMS. I have never studied carefully the Federal reserve system, and, as I say, I have only been in the building twice. I do not know anything about it.

The CHAIRMAN. That is true practically of every officer of a national bank, is it not, that they know very little about Federal reserve operations, and notwithstanding the fact that you are, of course, stockholders of the system, you do not have much to say about its management?

Mr. ADAMS. We do not come in contact with it. The first time I went there, I went to see whether or not we could rediscount some farmers' paper in case we had to; I wanted to find out what the chances would be, and the proposition was that if this farmer had grain in his granary and ready for the market, they could loan on that. I asked them if the farmer who had plowed his field, put in his seed, and was almost ready to harvest was not entitled to have credit on what he had done. At first they took the ground that he was not, but later they assented to it. Although we did not borrow the money. But they were right in their first contention, that it was not security, because a hailstorm came along and spoiled that grain.

That is the only time I have talked to them about borrowing money.

The CHAIRMAN. I think that is about all that I care to ask you, Mr. Adams, unless there is something you can add to the very intelligent statement which you have made.

Mr. ADAMS. There are one or two things that perhaps I should add.

It is shown in the record here that 71 per cent of the banks which failed had a capital under \$50,000. I was going to answer the point made by Mr. Goldsborough when he talked about having a bank of \$12,000 capital by saying that it had \$75,000 surplus. He was talking about small capital, whereas they built up very large surpluses in those banks in Maryland which he referred to.

The CHAIRMAN. And a surplus is the same as capital.

Mr. ADAMS. It is there to take care of a loss.

There is one other thing, and that is that for a long time in our State these banks which failed kept declaring dividends when they were not in shape to do that.

The CHAIRMAN. And that indicates lack of proper supervision.

Mr. ADAMS. Yes, and I was about to make the suggestion that a bank, before it declares a dividend, ought to get a clearance either from the comptroller or the superintendent of banks that it is proper to pay that dividend; but they paid dividends on December 31 and then go into the red for operating funds until the next fall when they made collections and, of course, after paying dividends there was nothing left on hand when grief came.

I think that is all.

The CHAIRMAN. I will say, Mr. Adams, that the committee are very grateful for your presence here, and I am sure that you have added very materially to the data before us in connection with this subject.

Mr. ADAMS. I am glad the committee feels I have done some good, and I thank them for the courtesy and patience which they have shown in allowing me to put it over in a sort of a country style.

The CHAIRMAN. The committee will adjourn until to-morrow morning at 10.30, when we will hear Mr. Charles E. Mitchell, of the National City Bank.

(Thereupon, at 3.40 p. m., an adjournment was taken until Wednesday morning, June 11, 1930, at 10.30 o'clock.)

BRANCH, CHAIN, AND GROUP BANKING

WEDNESDAY, JUNE 11, 1930

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

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

The CHAIRMAN. The committee will come to order. There is present this morning, Mr. Charles E. Mitchell, head of The National City Bank of New York, who will make a statement to the committee on the subject of branch, chain, and group banking, after which I understand you will be willing to answer questions of the committee, Mr. Mitchell?

Mr. MITCHELL. Certainly.

STATEMENT OF CHARLES E. MITCHELL, CHAIRMAN THE NATIONAL CITY BANK OF NEW YORK

Mr. MITCHELL. You have invited a statement from me in regard to the operations of The National City Bank of New York and its affiliated companies, as well as the bank's or my own views on the subject of branch, chain, and group banking.

Let me say at the outset that while The National City Bank of New York is extensively engaged in branch banking, both at home and abroad, under the provisions of existing laws, it has no interest, direct or through affiliated companies, or in any other manner, in any group or chain of banks.

Our form of corporate organization comprises three separate institutions—The National City Bank of New York, which is a national banking association operating under the laws of the United States; The National City Co., which is a business corporation organized under the laws of the State of New York; and The City Bank Farmers Trust Co., formerly the Farmers' Loan & Trust Co., which is a trust company operating under its special charter and the banking laws of New York State.

These three institutions operate independently of each other in their respective fields, but all three are affiliated by the manner in which their stock is held, so that, in effect, one body of shareholders owns them all. To be more explicit, all of the stock of The National City Co. and all, except directors' shares of the stock of the City Bank Farmers Trust Co., is held by trustees for the equal and proportionate benefit of all holders of shares of stock in the bank. Each shareholder in the bank has a stock certificate which carries indorsements evidencing his proportionate beneficial interests in the capital stocks of The National City Co. and the City Bank Farmers Trust Co., respectively, and he receives from time to time checks for his

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proportionate part of the combined dividends paid by all three. The 5,500,000 shares of stock of the bank outstanding are held by more than 65,000 shareholders.

The bank is now operating 42 branches in the city of New York. At each of these a full banking service is rendered to the community served. It is our policy to open additional branches in the city from time to time, as the extension of our business or the growth of this or that district seems to require. Urban conditions of life and business seem to us to call for this continuous development of our branch facilities throughout the city. We find them profitable and easy to manage.

As permitted by the laws of the United States, the bank also operates abroad, directly or indirectly, 98 branches in 23 countries. These branches are established at natural centers or crossroads of commerce throughout the world and, in the main, serve American trade and commerce in the countries in which they are situated. In the scope of their banking business they are careful to preserve the amenities and avoid friction with the local banks, it being our policy to consider ourselves as a guest in the foreign countries which we enter.

The National City Co. is the investment banking affiliate engaged in the analysis of corporate and Government finance, underwriting, and the purchase and sale of investment securities. It conducts its business through its head office in New York and 69 offices located in the United States and abroad.

The City Bank Farmers Trust Co. is the fiduciary affiliate and is engaged in the handling of trusts and the performance of trust functions of all kinds. When its affiliation with The National City Bank of New York was effected in 1929, its commercial banking business was taken over by the bank, while, on the other hand, the bank turned over and is continuing to turn over to it, so far as the necessary consents of interested parties can be obtained, the trusts and trust business in which The National City Bank had been previously named.

Prior to affiliation with The National City Bank of New York the Farmers' Loan & Trust Co. had acquired jointly with the Central Union Trust Co., now the Central Hanover Bank & Trust Co., the ownership of the First National Bank of Palm Beach and the Central Farmers Trust Co. of West Palm Beach, Fla., both of which are small but sound and successful local institutions. The purpose was the development and extension of trust business.

Our form of operating organization is generally as follows:

The chairman, according to the by-laws, is an operating official and the chief executive officer of the bank and of each of its affiliates. The National City Bank of New York, The National City Co., and The City Bank Farmers Trust Co. each has its president. The chairman and these presidents are permanent members of the executive committee of the bank, on which committee members of the board of directors of the bank rotate in office. While there are officers of the bank that perform general duties, there are also vice presidents whose responsibilities relate directly to a given territory, this applying to the United States, to divisions of the greater City of New York, and to the foreign fields. In branch operation the vice president in charge of a given territory has under him certain officers with executive titles, and a group of managers, each handling a separate office.

The control of foreign and domestic branches is generally similar. In New York City, however, a single vice president is constantly in touch with the managers of branches within his group, while abroad a double control exists, one managerial group under a vice president at head office cooperating with and interchanging personnel with the managerial group operating under the vice president in the foreign field.

Nowhere in our institution have we been as free in incurring expense as in our inspection departments, which are administered by the comptroller. Every department at head office is inspected two to four times a year, and credit inspection world-wide is constant. Inspection of trusts is constant. All domestic branches are thoroughly inspected at least twice each year, and "spot surveys" and "security counts" are taken by surprise at shorter intervals. These inspections are augmented by frequent visits by the executive forces attached to the vice president in charge of specific groups. In addition to all this, the Comptroller of the Currency makes an inspection of head office and domestic branches twice a year and of foreign branches at irregular intervals, and the examiner of the New York Clearing House makes his inspection at least once yearly.

Institutionally we take no firm position as favoring unit, branch, group or chain banking. We can not, however, be blind to the fact that while unit banking as a sole system has played a prominent part in the development of our country, and still has its ardent adherents, there is a very definite trend away from it, a trend that is fostered not by individual authorities but by public interest. It is to be expected that, as time goes on and the public has tested these varied types of banking, the right kind of banking for this country will develop from popular demand. The National City Bank of New York will adapt itself to the developments.

It is our observation that while national feeling in the United States is second to none existing anywhere else in the world, local civic and neighborhood pride and desire for autonomy is prevalent throughout the United States to an outstanding and exceptional degree. We feel that this must be taken into consideration as the trend in banking develops and that, while in the ultimate whatever system best serves the public interest will doubtless be adopted, it is important that no banking trend should be forced by precipitate legislation, either permissive or restrictive. The development should be more rapid in any direction than is sanctioned by the gradual change of public feeling.

Frankly, it would seem clear that the small unit banks for outlying and rural districts have as a system outrun their exclusive position of popularity. Such banks must be operated cheaply but manifestly can not be operated as cheaply and at the same time as safely as a system of them which is supervised by experienced and capable bankers. Age, experience, training, a wider view and contact with larger affairs, are of value in supervision but of less importance in the routine of a small bank. It always has been claimed for the locally owned unit institution that it was more responsive to the wants of the community than a branch of a larger institution, with headquarters elsewhere, would be. Doubtless, there is something in the argument, but it works both ways. The most important of all considerations in valuing the services of a bank to a community is

that it shall care for the funds intrusted to its custody in such manner that they shall always be safe and ready for return to the depositors on demand. There is such a thing as a banker being too responsive to local applications and too much under the influence of local and personal appeals.

The fact that a local banker is under greater pressure from local borrowers than a branch manager, supervised by an outside authority, may cause the interests of depositors to be imperiled for the accommodation of borrowers; indeed, the record of failures proves this to be frequently the case. Every period of boom times has had many bank failures in its wake, because the local bankers were under the same influences and affected by the same psychology as their customers.

Branch banking where permitted by law, and group banking in part as a substitute where branch banking is not permitted, and a combination of these developments sometimes working hand in hand, is gradually but assuredly taking hold alongside of the old unit system. The development has come about not by the establishment of new banks to compete with the old nor by aggressive action from large financial centers. It has been largely due to local conditions where the opportunity existed for constructive reorganization. It is well that this movement is gradual, as it is educational to a public that is primarily interested in banking service. It is not a movement to be feared. Banking is not a business which can be monopolized. The idea that local money or capital will be drawn away from the small towns to the large cities and that local needs will go uncared for is unwarranted. It is not at all likely that money will be drawn from a higher to a lower market, and since money is usually cheaper in large centers than in the outlying districts, closer relations between the two are more likely to result. There will be no monopoly. The local fields will always be free and open for the establishment of locally owned banking institutions, and if they are capably managed and worthy of confidence they will be able to maintain themselves in the competition for local business. They will always have the best of the argument, certainly if the institution of outside ownership does not afford satisfactory safety or accommodation to deserving customers. That broad banking accommodation can be satisfactorily extended to outlying districts with comparatively small operating costs and with expert supervision provided by an overhead organization which covers numerous offices would seem to be assured by experience.

It should be borne in mind, however, and the importance of it is so vital as to justify repetition, that the normal banking development which has occurred in a natural and orderly way in most other countries has been discouraged and restricted in this country, and this fact creates a danger of a hasty, competitive development and one that will be publicly resented in case all restrictions are taken off at once. It is undoubtedly best that we gain experience gradually, with legislation keeping pace therewith. No reasonable objection, however, from the standpoint of public interest can be offered to the extension of the branch banking privilege for State and national banks alike beyond the present restricted areas. If such a development gives to the public a safer and better banking service, the demand for a further extension of power will come from a convinced public and the development will be a normal and accepted one.

How far immediate legislation should go in advantageously extending permissive powers for branch banking is a difficult problem. The trade area suggestion appears to me at present too broad in its scope. The suggestion of extension to county or to State lines seems artificial. The expansion to Federal reserve districts extends the territory to an unwarranted degree under existing circumstances and furthermore is filled with impracticabilities owing to the fact that the districts themselves do not represent either trade areas or spheres of natural banking relationships. My one suggestion would be that legislation should be such that under the carefully given permits of the comptroller's office the limitations of branch banking be extended to a somewhat larger field in the immediate vicinity of our cities, allowing the experience of this extension to be the guide in future legislation.

I feel that group banking is playing a most important role in what may be a real trend from unit banking at the one pole to widely practiced branch banking at the other. Where well managed, the groups seem to be satisfying the needs of the public which they serve. That they lack the flexibility, the effectiveness, and the economies of the branch system is obvious. As a measure of prudence, I feel that the holding companies should be under the inspection powers of the office of the Comptroller of the Currency.

In every country of the world that has attained financial maturity there is, so far as I know, a unified banking system operating under one set of national laws. The situation must necessarily be very different in the United States with our separate national and State jurisdictions. But wherever possible, through uniform State laws and wise development of Federal reserve legislation, the benefits of uniformity in the laws governing banking should be secured to the people.

The CHAIRMAN. Mr. Mitchell, what is your official position with The National City Bank?

Mr. MITCHELL. I am chairman of The National City Bank of New York and its affiliates.

The CHAIRMAN. The other witnesses who have appeared before the committee have furnished the committee either at the time of the hearing or subsequently have placed in the record a statement of the companies and affiliated companies. Will you furnish the committee with that data from your published statement?

Mr. MITCHELL. I will give you our last published statements.

The CHAIRMAN. Without objection, they will be placed in the record at this point.

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

The National City Bank of New York, including domestic and foreign offices—Condensed statement of condition as of March 27, 1930

ASSETS	
Cash in vault and in Federal reserve bank..	\$174, 667, 509. 29
Due from banks, bankers, and United States Treasurer.....	162, 872, 862. 71
	\$337, 540, 372. 00
Loans, discounts, and acceptances of other banks.....	1, 197, 209, 705. 73

United States Government bonds and certificates.....	\$160,777,500.00	
State and municipal bonds.....	22,411,790.00	
Stock in Federal reserve bank.....	6,600,000.00	
Other bonds and securities.....	57,104,102.82	
		\$246,893,392.82
Ownership of:		
International Banking Corporation (including Bank of Haiti, Inc.).....		8,000,000.00
Bank buildings.....		37,605,378.79
Items in transit with branches.....		11,344,334.90
Customers' liability account of acceptances.....		150,116,686.23
Other assets.....		7,128,743.95
Total.....		1,995,838,614.42

LIABILITIES

Capital.....	\$110,000,000.00	
Surplus.....	110,000,000.00	
Undivided profits.....	22,409,425.19	
		242,409,425.19
Reserves for:		
Contingencies.....	6,981,752.66	
Accrued interest, discount, and other unearned income.....	7,787,670.45	
Taxes, dividends, and accrued expenses, et cetera.....	9,450,410.11	
		24,219,833.22
Liability as acceptor, indorser, or maker on acceptances and foreign bills.....		257,602,289.22
Circulation.....		99,365.00
Deposits.....		1,471,507,701.79
		1,995,838,614.42

Figures of foreign offices which are included herein are as of March 25, 1930.

The capital stock of the City Bank Farmers Trust Company (capital \$10,000,000, surplus and undivided profits \$13,014,630.44) and The National City Co. (capital \$55,000,000, surplus \$55,000,000) are beneficially owned by the stock holders of The National City Bank of New York. The figures of these companies are not included in the above statement.

City Bank Farmers Trust Co.—Condensed statement of condition as of March 27, 1930

ASSETS

Due from banks and bankers.....	\$35,269,005.61
Loans and other secured advances.....	1,401,515.02
United States Government bonds.....	8,319,000.00
Other bonds, mortgages, and securities.....	12,534,066.17
Other assets.....	3,673,363.73
Total.....	61,196,950.53

LIABILITIES

Capital.....	10,000,000.00
Surplus.....	10,000,000.00
Undivided profits.....	3,014,630.44
Deposits.....	36,543,658.73
Reserved for dividends, interest, taxes, and expenses.....	1,638,661.36
Total.....	61,196,950.53

Mr. FENN. There is only one question I have to ask in regard to the excellent presentation which Mr. Mitchell has made. Just in passing I notice that you say that the Comptroller of the Currency inspects your foreign branches. How can he do that?

Mr. MITCHELL. It is not a regular inspection.

Mr. FENN. I wish that he could make them, but I wondered how he could do it.

Mr. MITCHELL. He does. He sends a small group of men to one country and then to another, very often while our larger groups of inspectors are making their examinations, so that he saves the traveling of a large body and get the same results. He follows our own inspectors' reports very carefully; in other words—

Mr. FENN. He checks up on them?

Mr. MITCHELL. He checks up on those reports; yes. The inspection reports of our own inspectors are always given to his office and are having very constant and very careful attention from him.

Mr. FENN. Of course, that is an extraterritorial duty, if I can so term it, which he performs, and it is done under the authority of his office?

Mr. MITCHELL. It is.

Mr. FENN. And by inspectors appointed by his staff?

Mr. MITCHELL. Yes.

Mr. FENN. So that the inspection of your foreign branches or departments is identical with that within the borders of the country?

Mr. MITCHELL. I would hardly say identical.

Mr. FENN. Well, similar, perhaps I should say.

Mr. MITCHELL. It is similar but not identical.

Mr. FENN. That is all.

Mr. MITCHELL. Similar in that he sends his key men who work jointly with our own inspectors.

Mr. FENN. Are the results of those inspections ascertainable by the public, or do you publish them in your statements?

Mr. MITCHELL. No; the comptroller's reports are never given to the public.

Mr. FENN. I understand that, but I did not understand whether you published them in your own reports or not.

Mr. MITCHELL. No; they are very voluminous. Our own inspectors' reports are fully as voluminous as those of the comptroller.

Mr. FENN. Are they published in your reports to the stockholders?

Mr. MITCHELL. No, sir; they would constitute, in a year, a record far greater than the record of this committee in its hearings. We would have to have a very friendly public to spend the time necessary to read a fraction of the reports.

Mr. GOLDSBOROUGH. Mr. Mitchell, you used the phrase, a few minutes ago, "carefully granted permits by the comptroller."

Now, I have heard it said—and I use this illustration to make my question clear—very often that a first-class judge, who is absolutely wise, absolutely impartial, and absolutely fearless would be preferable to a jury in all cases. The answer to that is that "there ain't no such animal."

Now, then, the difficulty that any Comptroller of the Currency is under, it seems to me, is the difficulty of pressure which he, being human, can not possibly avoid. Do you believe that any comptroller is in a position to control, actually control, the granting of permits?

Mr. MITCHELL. Experience would lead me to answer that in the affirmative. Our experience with several comptrollers has been that their studies with respect to applications for the opening of branches

have been quite thorough. They have not been granted without a fair knowledge of the desirability to the public interests of such branches being opened, and I think that those words used in my statement fairly represent what I mean.

Mr. GOLDSBOROUGH. I am sure they represent what you mean, and I think you are right. The practical question is whether or not any one individual is in a position to control great pressure. You take a large institution, such as yours or the Chase National Bank, or in my own State, the Baltimore Trust Co. or the Union Trust Co. Now, they want to establish a branch. Their executive officers and directors have political affiliations of one kind and another. Pressure is brought upon probably the President and the Secretary of the Treasury, and that gets around to the comptroller. Now, you can not expect him, you know, to be absolutely impervious to a situation of that kind.

Mr. MITCHELL. I think you are quite right in that. He has the same difficulties that he has in the granting of the permits for the opening of national banks.

Mr. GOLDSBOROUGH. Yes.

Mr. MITCHELL. And of course, under pressure, under argument which he perhaps can not refute, although he may feel is soundly against the granting of such power, he has and he does grant permits for the opening of new national banks. We have seen it in our own territory and we have seen it throughout the country, especially when there is excessive enthusiasm regarding the value of bank stocks. Where there is a strong movement toward consolidation and merger, there is always a flood of applications for new national banks, formed in many cases for the sole purpose of getting a small development and disposing of the bank to somebody else.

Those are problems which he now has and which I assume would not be different from the problems that he would have in connection with the issuance of permits for more widely extended branches. Yet I do not know how the difficulties of the situation can be avoided. I recognize them as being there, but they are inherent in the situation. They have existed, and I doubt if they will exist to any greater degree under such a suggestion as I have made, than under the unit system of banking.

Mr. GOLDSBOROUGH. Mr. Mitchell, we have had before the committee several classes of argument favoring an extension of branch banking. One has been the number of failures of State and national banks which have taken place in the last nine years. Another has been that chain banks are bad things, that they ought not to be permitted to exist, but that the only way to get rid of them is to make it possible for these chain banks to be transformed into branch banks, and even though the witness does not favor branch banks, he says it is preferable to chain banking and, therefore, advocates branch banking to get rid of chains. The same thing obtains in the argument for branch banking to get rid of groups. We have never heard an argument in favor of getting rid of chain and group banking by affirmative action, nothing except that we could get rid of these greater evils by adopting branch banking.

Now, have you any opinion as to the justification for chain banks?

Mr. MITCHELL. The one argument against chain banks is that under a lax or improper control there may be introduced a weakness,

with perhaps one bad situation in the chain, bringing a collapse like a house of cards. I have always doubted whether chain banking added anything to the strength of the general banking situation.

Mr. GOLDSBOROUGH. Mr. Mitchell, the comptroller's view is this: He thought that chain banking was an unmixed evil; that they ought to be abolished; that in certain instances group banking was preferable to unit banking, but branch banking was preferable to either one of the three systems.

Now, have you any definite feeling about this group banking which is developing, particularly in the Northwest? What is your reaction to that economic development?

Mr. MITCHELL. I think it well has its place; that it is unquestionably in the public interest; and as to what the outcome of it is to be, where it is to lead us, I feel content to await developments.

Mr. GOLDSBOROUGH. You do not feel that it is necessary and proper to take such action as can be taken to stop group and chain banking where it is?

Mr. MITCHELL. No; I do not.

Mr. GOLDSBOROUGH. Until we can find out just what they are going to develop into? You think it is all right to let nature take its course, as I might say?

Mr. MITCHELL. That is my feeling.

Mr. GOLDSBOROUGH. I have this sort of reaction: If we are going through an economic cycle, where mergers of all kinds are inevitable as far as I am concerned the sooner the cycle works itself out the better and the less restraint placed upon it, in my judgment, the better, but if it is a casual thing; if, as a matter of fact, the spirit of the American people is still in favor of local self-government in banking as well as in everything else, then it seems to me that Congress should adopt a position of restraint, rather than to allow a condition which is not really a condition of cycle to go on.

Now, have you any opinion as to whether this is a situation that has got to run its course; whether, as a matter of fact, the country has permanently adopted, as a part of its psychology, great concentrations in business and, of course, in banking, as well as in everything else?

Mr. MITCHELL. I think I can say that that is the trend.

Mr. GOLDSBOROUGH. You think it has permeated the spirit of the people—of the public?

Mr. MITCHELL. I think it has probably created a demand for some different type of banking than the sole system of unit banking.

Mr. GOLDSBOROUGH. I am from the eastern shore of Maryland, which is that part of Maryland east of the Chesapeake Bay. Down there we have almost entirely unit banking with the exception of a State organization known as the Eastern Shore Trust Co. and a few smaller branch systems. There has been, in the last 40 years, one temporary suspension. No depositor has lost a cent in 40 years of banking in the nine counties of the Eastern Shore.

I think I have made the statement heretofore I know of several banks with capital stocks as low as \$12,000 that have been prosperous and have served their communities very well and have declared sufficient dividends to keep everybody happy.

Does it not seem, as long as a community can be served by an organization of that kind and maintain its autonomy and its feeling of

personal interest, and its bank officers can absorb, by attending various meetings of banking associations and by contact with its city correspondents, up-to-date banking technique—does not that seem to you to be a better situation than to have branch banks of, say, Baltimore or New York, dominating the credit situation, which in turn would dominate the business situation and, in turn, the political situation, and get virtual control by the great metropolitan centers of the rural districts?

Mr. MITCHELL. I would say if your district is receiving service that is entirely satisfactory to itself at the present time, that it would be difficult to supplant it with anything else unless that which was presented gives to the public a finer service, greater safety, and greater accommodation, and broader banking service than they are now receiving and, as I have suggested in my earlier remarks, your local institutions will always have the best of it.

Mr. GOLDSBOROUGH. I was talking to one of our bank presidents the other day, one of our leading bankers and a man of good sense, and I said: "Look. Suppose some Baltimore bank was to come down here and offer your stockholders one and a half of the market value of your stock." I said, "What would you do?" He said, "We would sell."

Now, suppose they sold to that bank and became the branch of some bank in Baltimore or New York, as the case might be: It would be in a position, as long as competition continued in that community, to offer probably better service than the local banks could offer, but when it eliminated competition, what would be the situation—after, by its improved service, it had eliminated competition, would it continue to be interested primarily in the community or in using the community as a feeder for the home bank?

Mr. MITCHELL. In the banking business, I doubt if there is any such thing as the elimination of competition for more than a moment of time.

Mr. GOLDSBOROUGH. That is what several witnesses have said, but it seems it has been done in England, in Canada, in Germany, in France, in South Africa, and in Australia. The practical fact is that competition has been eliminated in those countries—all great countries.

Mr. MITCHELL. But bear in mind that any system of banking—any bank—can live only as it serves the public interests in a real and continuing way. If there were a failure to serve the public interests by an existing system in any one of the countries which you named, there certainly would be something to take its place.

Mr. GOLDSBOROUGH. But it would take a long while.

Mr. MITCHELL. Local pride, local insistence upon service, will assert itself almost overnight to supplant anything as important as the banking service, where the banking service rendered is unsatisfactory or bad.

Mr. GOLDSBOROUGH. Is not that true among a people who are used to the unit system and used to local self-government? Would it not take a very, very long time among a people who had become habituated to a centralized government and a centralized banking system? Does it not take them a long, long while to awaken to their own interests? Is not that the case?

Mr. MITCHELL. Personally, my view would be to the contrary.

Mr. HOOPER. I have just one question. On page 7, at the bottom of the page, you say:

No reasonable objection, however, from the standpoint of public interest can be offered to the extension of the branch banking privilege for State and national banks alike beyond the present restricted areas.

That raises the question discussed by some of the gentlemen who have testified, as to what your idea is—or have you one—as to the trade area. Have you one that you care to express?

Mr. MITCHELL. You will notice that I say at the outset that the problem is a very difficult one. I think that the trade-area suggestion is undoubtedly too broad for the moment. I think that we must be gradual in this development.

Mr. HOOPER. You would limit it to State lines, certainly?

Mr. MITCHELL. I do not think that that is altogether logical. I can not believe, in the ultimate, that that restriction will exist.

Let me amplify that. Take our situation in New York, where we are extending branches through the Greater City of New York. We have a large suburban area with 75 or 80 per cent of the people in that area doing business constantly in New York and having their contracts in New York. Let us say that we extend branch banking farther down Long Island, to go beyond the city limits and to take in such places as Glen Cove, Oyster Bay, and possibly running down to Patchogue. That serves those people who have interests in New York City.

Now, suppose we go down through Westchester. We are permitted, let us say, to go to Rye and Port Chester. There are certainly just as many people living just over the line in Greenwich, Conn., who have their interests in New York, as there are in Port Chester—perhaps more.

Why, if the public interest is truly served by this expansion, should it be stopped at a State line and the people whose interests are identical just over that line, fail to get that service?

Mr. HOOPER. I am not maintaining that that should be the case, but would not there be complications arise merely from the different jurisdictions, even under the national banking laws, or would there incline to be complications by reason of State lines, in your opinion?

Mr. MITCHELL. If the extension of the privilege were made under the national act, I do not see just why there need be complications.

Mr. HOOPER. That is all, Mr. Chairman.

Mr. GOODWIN. Does the National City Bank of New York now operate branches outside of the metropolitan area of the city of New York?

Mr. MITCHELL. We operate in the boroughs of Manhattan, Bronx, Brooklyn, and Queens.

Mr. GOODWIN. And they come within the provisions of the McFadden Act?

Mr. MITCHELL. Yes; that is, the Greater City of New York.

Mr. GOODWIN. Are they both National and State banks—these branches?

Mr. MITCHELL. They are branches of our national bank.

Mr. SEIBERLING. Do you think it would be possibly better to have one system of banking rather than two—Federal and State?

Mr. MITCHELL. Until we know a lot more about the situation than we know now, I should say most decidedly we ought to have two.

Any one of our 48 States may make mistakes in their banking laws, permissive or restrictive, and any State bank has the power to retire and to enter into the national system, and vice versa. We have, through this double system, at the moment a counteractant against any unwise legislation and, during this formative period certainly there is, and possibly for all time there will be, a distinct advantage in the dual system.

Mr. SEIBERLING. Of course, you can not get the uniformity of restriction that you recommend and the uniformity of laws governing banking with the dual system, where you have no control of State banks.

Mr. MITCHELL. In connection with group banking?

Mr. SEIBERLING. You recommend, near the end of your statement here, a uniformity of banking restrictions.

Mr. MITCHELL. Uniformity of banking laws. I have in mind there, particularly, laws relating to negotiable instruments, usury rates, and matters affecting bank operations. There should be very definitely an urge upon all men to get uniformity in laws of that kind.

Mr. SEIBERLING. As I understand it, your theory is that if you had branch banking and you could get more for your money in the rural districts or in the branches than you could get in your main bank, you naturally would lend your money where you could get good security and get the highest rates and therefore the community would not suffer by reason of having branches?

Mr. MITCHELL. Generally speaking, that is my argument; yes.

Mr. SEIBERLING. You think branch banking should be extended?

Mr. MITCHELL. I think it would be wise to extend branch banking beyond its present limits, in order that we might gain some more experience.

Mr. SEIBERLING. Now, since Maryland does not want branch banking—

Mr. GOLDSBOROUGH. Maryland has state-wide branch banking now.

Mr. SEIBERLING. But I understand you are not for an extension of it?

Mr. GOLDSBOROUGH. I am not, but the State, as far as the State banking laws are concerned, has state-wide branch banking.

Mr. SEIBERLING. Then I will amend my question. As long as some States do not want an extension of branch banking, because their banking experience has been nearly 100 per cent, and other sections of the country need it very badly, I take it that is the reason why you have suggested that the matter of extension of branch banks should be left largely in the hands of the comptroller?

Mr. MITCHELL. No; I have not had that particularly in mind. I feel that with respect to branch banking, it is worthy of being tried out by some further extension than we are permitted at the moment, allowing the public interest to determine, as time goes on, whether further extensions are desirable.

Mr. SEIBERLING. Well, to get back to the other point, since it is difficult to determine the area in which branch banking should be permitted, if the comptroller had authority to permit branch banking, it would naturally follow he would permit it only in areas where it was desired and would not permit it in areas where it was not wanted, and that would meet the public demand, would it not?

Mr. MITCHELL. I doubt if the powers of the comptroller would be quite as broad as that. I think that the areas must be stated in some legislation.

Mr. SEIBERLING. Now, that is what I am getting at. Your idea, then, is that the area should be stated in some manner; that the comptroller should be given authority within those areas to permit branch banking?

Mr. MITCHELL. Quite so.

Mr. SEIBERLING. You think branch banking should always be permitted to the same extent that States permit it?

Mr. MITCHELL. Yes; I feel that very strongly.

Mr. SEIBERLING. I think that is all.

Mr. DUNBAR. Mr. Mitchell, you start out by saying "You have invited a statement from me in regard to the operations of the National City Bank of New York and its affiliated companies," which justifies this question: You are the man who, 6 or 8 or 10 weeks before the panic in Wall Street last October loaned \$25,000,000 over night, in order to furnish means to prevent a panic on the stock market? Are you the man?

Mr. MITCHELL. I am the man there has been so much talk about in respect to—

Mr. DUNBAR. That is all right. You are the man who loaned the money?

Mr. MITCHELL. The National City Bank of New York did so.

Mr. DUNBAR. Now, I have always been very much interested in reading your monthly statements. Following your lending that \$25,000,000 you had an editorial in your monthly newspaper or weekly newspaper in which you gave advice to the public which I thought was wonderful and wise and good. That advice was this, that if frenzied speculation was discontinued by the public, and if those who were speculating would gradually reduce the amount of their loans, we could expect an era of prosperity which had never been exceeded in the United States, and then your newspaper went on to say that if this speculative frenzy which had taken possession of the whole people of the land had not occurred, there was nothing that we could expect but permanent prosperity and that the results which would follow its continuance would be attended by evil consequences.

Mr. MITCHELL. Yes, I remember that statement in general. I think I wrote it largely myself.

Mr. DUNBAR. That is just what occurred in Wall Street?

Mr. MITCHELL. Yes, sir.

Mr. DUNBAR. If your advice was followed that trouble would not have occurred. The Federal Reserve Bank was blamed for not lending money to help keep up the speculation, and when you loaned the \$25,000,000 you were advertised almost as the savior of the United States and yet, at the same time, you knew the course being pursued by the speculators would bring about ruin unless it was stopped. Now, that is the situation.

Mr. MITCHELL. You ask me for an explanation of that?

Mr. DUNBAR. No, I do not care for an explanation, because your statement is complete. However, I would be glad if you would give an explanation of it.

Mr. MITCHELL. I feel that no banking system, however it may be established, is a right and proper system that fails to provide money

to a legitimate borrower under any and all conditions at a rate of some sort. We never can close the door to a legitimate borrower.

In my own opinion, when we discuss credit, we must view it solely as one global thing. If there has been speculation in wheat, let us say, shall any banking authority say that banks can not loan to the dealer in wheat or to the wheat farmer; that there is over production and the banks must stop lending? That is attempting to control the direction of the flow of credit. It may be that bankers will make up their minds that there is danger in such a situation and the rate will indicate it, but if that wheat farmer or dealer in wheat has a legitimate demand for money, it must be satisfied by banking authorities.

Mr. DUNBAR. Now, then, I just want to commend you—

Mr. GOLDSBOROUGH. He has not finished his statement.

Mr. DUNBAR. Then, proceed and finish your statement.

Mr. MITCHELL. I would say that the same thing applies to the demand for money on collateral loans. If an industrial concern borrows for its needs, that is industrial borrowing of a legitimate character. If an industrial company issues securities and gets money to satisfy those needs, then, on some basis or another, there is a justifiable ground for a loan on the securities issued by that industrial company. The borrower who brings those securities in and asks a loan is a legitimate borrower, just as legitimate as though the industrial company itself came in and asked for a loan, and I can not conceive of greater economic wrong than for a banking system to refuse credit on such collateral on some terms.

The two questions, sir, that you raise strike me as not being altogether related. That is why I make this explanation. Speculation that demands a use of credit which makes the total volume of credit outstanding unjustifiably large, is to be deplored, but the lending of money on collaterals is quite a different question and there should be a banking power to do it.

Mr. DUNBAR. I think the two questions I asked you are related, but ever since I heard of your lending that \$25,000,000 and ever since I read your article I thought that you had more wisdom in your brain in lending that money and then giving that note of warning, than I have read from any source, and I have thought that if all the bankers of our land had viewed the situation as you did, first coming to the relief of the situation and then giving a note of warning, perhaps the panic in October might have been avoided.

Mr. GOLDSBOROUGH. You and Mr. Mitchell will agree on that, undoubtedly.

Mr. DUNBAR. What I want to bring up is this: We read yesterday of a bank in Cincinnati failing—an average bank, I suppose—but the losses through one individual are a million dollars, upon which I think he had borrowed money and had about \$100,000 of his own securities. He had been kiting checks. He lost over a million dollars last October and since then, in Wall Street, due to speculation entirely.

We agree so far?

Mr. MITCHELL. Quite so.

Mr. DUNBAR. I want to commend you, sir, because you have given a piece of advice at a time when everybody should have taken it, and if they had taken it we would have been all right. Do you

not believe that the hard times of to-day are caused primarily by the panic we had in Wall Street?

Mr. MITCHELL. No.

Mr. DUNBAR. You do not believe that had anything to do with it?

Mr. MITCHELL. Yes.

Mr. DUNBAR. How much did it have to do with it? I am not a lawyer, now, you understand?

Mr. MITCHELL. You are opening up a very broad question, but to answer it very, very briefly, I would say that the present difficulty that the country finds itself in resulted from a very broad overproduction that started with the war and has been going on apace since then. I think that the culmination of the speculative movement last fall accentuated a depression in business that was approaching anyway.

Mr. DUNBAR. But in that article you wrote you said that if the frenzied speculation should be curbed, we could expect a continuation of reasonably good times never excelled in the United States.

Mr. MITCHELL. And I believe that to-day, sir.

Mr. DUNBAR. Well, then—

Mr. MITCHELL. I believe that we are bound to hesitate, in our prosperity in the United States, with comparatively brief breathing spells, but at times our bad habits and overproduction and over-salesmanship, all resulting in a great overenthusiasm—those were bad habits for the country—

Mr. DUNBAR. That is true.

Mr. MITCHELL. Those were bad habits and temporarily—for how long a period I would not say—we are bound to have a let down in which those bad habits are going to be corrected.

I think one of our bad habits, as I have indicated just now, was an overenthusiasm. That overenthusiasm showed itself and demonstrated itself in the markets. That was the situation that was corrected in part by the collapse of the markets last fall, and we are now going through a period of more complete correction—a correction of that bad habit along with some others. How long it will take I do not know. My feeling, however, is that the fundamentals of this country and the character of the people make a state of prosperity the natural state for our country, and we are now on our way toward conditions that will be favorable to business and to business men.

Mr. DUNBAR. You believe that there is any prospect of slight or immediate revival of business now? What are the signs of the time?

Mr. MITCHELL. Mr. Chairman, has this definitely to do with branch, chain, and group banking?

Mr. DUNBAR. Pardon me, but you stated, "You have invited a statement from me in regard to the operations of the National City Bank of New York and its affiliated companies." What I am asking you is in reference to the operation of your bank. However, I will withdraw the question.

Now, you said that you did not believe that the losses in Wall Street last October were responsible for the present hard times only so far as our bad habits had caused a great many people to lose money and that overproduction was a cause. Do you not think that the great tremendous losses experienced in Wall Street last October did have a

whole lot to do with the bad times—perhaps precipitated the hard times?

Mr. MITCHELL. Yes—the same effect as overenthusiasm in agricultural land values during the period, let us say, from 1900 to 1920 had upon the rural districts and the condition of their banks.

Mr. DUNBAR. That is a satisfactory answer.

Mr. MITCHELL. From 1900 to 1910, generally speaking, land values in the rural districts doubled, and doubled again from 1910 to 1920. That was an excess of enthusiasm that brought in its trail a great deal of misery and, by and large, perhaps, more bank failures in the country than any other single cause.

So I say the excesses and overenthusiasm in the stock market are a directly parallel case.

Mr. DUNBAR. Now, I just want to ask one or two other questions. In speaking of banks in foreign countries, you say they have attained a degree of excellence or unanimity as to what should be the factors in the operation of those banks. I think somewhere, although I can not find it now, you mention that they are superior to those in our own country. Did you?

Mr. MITCHELL. I did not. I think you are referring to what I said in the last part of my statement. I said in every country of the world that has attained financial maturity—

Mr. DUNBAR. What page is that on?

Mr. MITCHELL. On page 8. "In every country of the world that has attained financial maturity, there is, so far as I know, a unified banking system operating under one set of national laws."

Mr. DUNBAR. How many large banks in Europe have failed in comparison with large banks in the United States? I do not mean a bank of less than \$250,000 capital stock. How many banks have failed in Europe as compared with failures in the United States?

Mr. BEEDY. Within what time?

Mr. DUNBAR. During the last 10 years. Are there any more failures in the United States among large banking institutions, proportionately, than there are in Europe?

Mr. MITCHELL. Among large banking institutions?

Mr. DUNBAR. Yes.

Mr. MITCHELL. No. In the United States we have not had many failures among what can be called large banking institutions, over many decades.

Mr. DUNBAR. Then the unified banking system in Europe does not make for safety, eliminating the small banks, any more than we have safety in the United States?

Mr. MITCHELL. I am not attempting to make a point in that sentence of my statement; I am merely stating a fact. Perhaps conditions in our country are very different than they are in any other country in the world. Remember that Germany is the size of Texas in area. Now, I think it would not be wise for us to leap to the conclusion that because a certain banking system is satisfactory and successful in Germany, it is adaptable to the needs of the United States, with our breadth and scope of interests. This is a problem. I am not arguing that we should have this unified system. I cite it as a fact that in every other country of financial maturity there is a unified system, a fact which will perhaps lead us, in our gropings, to the ques-

tion whether some day we will not reach the same goal—a unified system.

That is one of the problems that I think you gentlemen, who are making such a fine study at the moment, should definitely have before you, and it is the only reason I mention it.

Mr. DUNBAR. The great difficulty in that is that each State can have a banking system different from the United States which, a while ago, you did not deplore or did not believe detrimental.

Mr. MITCHELL. Certainly during the time when we are working up to a possible answer, I consider it advantageous that we have this dual system. I do not say that in the end that is what we should have or will have, but during this period when we are finding out something—and it will take us a great many years to find it out—I think it is well we have this dual system.

Mr. DUNBAR. I want to say that you are a man who impresses me as a man in search of light and knowledge and to that extent I am very much gratified at your statement. I have only one other question. You say that, for the present, branch banking should be extended to a somewhat larger field in the immediate vicinity of our cities.

Now, you answered that in an inquiry propounded to you by Mr. Hooper, that New York City—Greater New York—and its environs and suburbs, and some of them go right over to Connecticut—you see no reason why you should not be permitted to extend over there. But, that is the limit of your demand for extension of branch banking at this time because you say you would allow the experience gained in this extension to be the guide in future legislation. So you believe, in any proposed extension of branch banking, we should go very slowly and deliberately and find out what a limited extension might suggest for the future?

Mr. MITCHELL. That is my view.

Mr. DUNBAR. That is your view?

Mr. MITCHELL. Yes, sir.

Mr. DUNBAR. Now, you have 42 branch banks in the city of New York, within the corporate limits?

Mr. MITCHELL. That is right.

Mr. DUNBAR. And other national banks are permitted to have the same thing?

Mr. MITCHELL. Yes.

Mr. DUNBAR. That is all, except I want to observe this, that I was always very much impressed by what you did to relieve the money situation in New York and by the advice you gave us afterwards, and which, if followed, I believe, to-day we would be enjoying reasonable prosperity, and I attach more importance to the losses sustained by gambling in Wall Street last October as being the cause of our present distress, than you do. That is all.

Mr. BEEDY. Mr. Chairman, I am sorry to say that I missed the statement of Mr. Mitchell, but I have been scanning it since I came in, and I would like to ask one or two questions.

I notice you say that the National City Co. is the investment banking affiliate and the City Bank Farmers Trust Co. is your fiduciary affiliate, and then you go on to show how the organization is linked up, the set-up of the management.

Do you think it is sound banking policy for one organization to have on the one hand trust funds and on the other securities which it is interested in putting on the market?

Mr. MITCHELL. Let me answer that by two arguments.

I think it is unfortunate for one demanding the solution of a banking problem if he has to bring his problem to either an investment banker, a trust banker, or a commercial banker alone.

I mean this, that if a corporation brings a problem in corporate finance to a purely commercial banker, it is likely that it will be solved through a commercial banking transaction while it may be that that problem should more properly be solved through investment banking action. In the public interest, therefore, I think it is well to have a linking of the various types of banking under one general management, and that they should be more or less separated and, in certain respects, definitely separated.

To go on with the second argument in answer to your question, I should say that we make it a rule in our trust company that they shall not buy from our investment affiliate, the National City Co., except where in some specific trust it is set forth as the desire of the maker of that trust that they may buy from the National City Co. In other words, we hold the two absolutely separate, the National City Co. and the City Bank Farmers Trust Co.—

Mr. BEEDY. Why do you hold them separate, distinctly separate? You emphasized that.

Mr. MITCHELL. Yes, we hold them distinctly separate because we believe that there are different types of minds in banking which should be segregated and specialized. So, for the general safety, unless some customer making a trust specifically grants the power of direct dealing, we eliminate it. When we set up the City Bank Farmers Trust Co. as the organization of our institution having to do with trusts, we did it believing firmly that trusts should be administered by trust-minded men. The trust-minded man, in my experience, is very different from the investment-banking-minded man, and the investment-banking-minded man is usually very differently minded than the commercial-banking-minded man.

We set it up as a general rule that these compartments in which these various types shall be operated without direct contact one with the other. However, I may add that if you were making a trust with the City Bank Farmers Trust Co., I think I might convince you of specific advantages in putting in that trust agreement a provision that so far as the purchase of securities is concerned, the City Bank Farmers Trust Co. should be permitted to deal with the National City Co., the investment affiliate. I think I could show anyone that argument to a point where he would likely say that it was to his advantage to put it in. Unless there be specific consent, the public and ourselves are safer in working under the general plan of having no direct contact so far as purchases and sales are concerned.

Mr. BEEDY. It would be your policy, would it not, when a man comes into your bank to make a trust, to have him see that by its terms you should be authorized to buy of your investment affiliate?

Mr. MITCHELL. We give him the argument; we show him the advantages, and if he chooses to make that provision, it is made.

Mr. BEEDY. He is free to make his choice, of course—

Mr. MITCHELL. He is free to make his choice.

Mr. BEEDY. But, believing as you do in your own company, it would be your duty to show him the advantages of authorizing purchase from your investment affiliate?

Mr. MITCHELL. Quite so.

Mr. BEEDY. I do not question but what this is an age of specialization and the trained trust man should run the trust business and the trained commercial banker should run the commercial bank.

My question is, does the holder of stock in the National City Bank participate in the profits of the three organizations put together?

Mr. MITCHELL. The stockholder?

Mr. BEEDY. Yes.

Mr. MITCHELL. Oh, yes; he participates in it all.

Mr. BEEDY. It is undoubtedly wise to have these separated, and the trained trust man in his proper department, but is it wise to link these two kinds of banking businesses together? We are all more or less human, and even if a man is trained as a trust banker, where he acts for a company that has an affiliate and where he owns stock in both companies and it is to his advantage to make a profit out of his own stock rather than the stock of somebody else, there is that human temptation perhaps to deal in securities through his own organization and not by purchasing it outside. There is a danger there.

Mr. MITCHELL. It seems to me that if your argument were carried very much further the fallacy of it would be apparent. In our business we endeavor to make very broad contacts. We do a very large business in what is the equivalent of the savings-bank business, or similar to it; again, we make a big business of small loans, unsecured loans, of \$250 and \$300 on the average to a vast number of people. Those are specialized businesses in themselves but are all a part of the banking business. If you segregate these and if you say that the letter-of-credit business, for instance, should be a separate phase of banking, and if you say that the foreign-banking business is a type of business extraneous from the domestic business and all of these units should be set up separately and that we should not be working as I think we are in a very definite way toward the department-store type in our large financial units, then the argument that I could give with respect to the particular question of the trust business and the investment-banking business as to segregation would fall down, but I argue for a complete banking service to be rendered to a public that seeks a comprehensive banking service from the institution to which they come.

Mr. BEEDY. Of course, there is a *reductio ad absurdum* to every argument. I should not attempt to go to the extreme to which you have gone in advocating the separation of the banking business of a banking institution for the purposes of your argument, but I did want to bring out the point that I think the linking of these two branches of the banking business places a very great necessity for wise management upon the management of the combined institution.

Mr. MITCHELL. You are quite right in that deduction. Of course, we direct our trust company with a separate board of directors. We insist upon it being operated by so-called trust-minded men and, as far as we can do so, we do segregate its activities.

Mr. BEEDY. May I ask another question, Mr. Chairman?

I notice in the morning papers, or yesterday's papers, that the third of the reparations loans which were to be floated in this country is now being offered to the extent of about \$113,000,000.

Is your bank participating in the marketing of any of that loan?

Mr. MITCHELL. You evidently have later information than I.

Mr. BEEDY. I noticed it in this morning's paper.

Mr. MITCHELL. It may well be. Up to the time I left the office yesterday, I understood—

Mr. BEEDY. I think that came out in this morning's paper.

Mr. MITCHELL. Yes, we are participating in the distribution of the loan.

Mr. BEEDY. Since the war, the latest figures that I have been able to get hold of is that this country has floated both in foreign government loans and foreign corporation loans about \$18,000,000,000, so that, added to the 12,000,000,000 of indebtedness owed it by foreign governments as the direct result of the war, it makes about 30,000,000,000 owed us by Europe and South America to-day.

Did you view it as a wise policy that this Government should not have gone into the League of Nations because of the danger of foreign entanglements—and, if that seems a bit irrelevant—

Mr. MITCHELL. I think it is pretty far afield.

The CHAIRMAN. I might ask what bearing that has on this question of branch, group, and chain banking?

Mr. BEEDY. It does not have any bearing, and he does not have to answer it unless he wants to.

Do you look upon these foreign loans as safe investments for trust estates?

Mr. MITCHELL. I do not think you can generalize on foreign loans any more than you can generalize on railroad bonds or corporate bonds of any kind.

Mr. BEEDY. Let us take the reparations loan. Does your trust affiliate handle any of these reparations loans? Do you underwrite them for sale purposes?

Mr. MITCHELL. Our trust affiliate does not do any underwriting. Our trust affiliate buys only for investment in its trusts.

Mr. BEEDY. Then this statement of yours is a little misleading, and I can see how it may be made to conform to the facts. Let me read it:

The National City Co. is the investment banking affiliate engaged in the analysis of corporate and Government finance, underwriting, and the purchase and sale of investment securities.

Mr. MITCHELL. Yes; but I understood you question to refer to the trust affiliate. Did I misunderstand you?

Mr. BEEDY. My question did refer to the trust affiliate.

Mr. MITCHELL. But if you will go on, you will see that I differentiate. The trust affiliate has to do with the fiduciary business only.

Mr. BEEDY. That is interesting and informative; that is, the National City Co. has two functions—it underwrites certain securities from time to time?

Mr. MITCHELL. Yes.

Mr. BEEDY. But it never underwrites any securities which it later might sell to the City Bank Farmers Trust Co. in conjunction with its trust business?

Mr. MITCHELL. Quite so.

Mr. BEEDY. Never?

Mr. MITCHELL. No, sir. The National City Co. does not sell anything to the City Bank Farmers' Trust Co. except where under some specific trust the maker of the trust has provided that the City Bank Farmers' Trust Co., the trustee, may purchase directly from the National City Co.

Mr. BEEDY. Exactly. So that, it being your policy to set forth the advantages of such a purpose whenever a trust is made with your City Bank Farmers Trust Co., if perchance any of the people who come in there to make a trust see those advantages as you think they should if they are wise, then that company does buy securities which the National City Co. underwrites and makes them a part of the trust estates?

Mr. MITCHELL. Where that consent is given in specific cases, yes; but in the general trust business, no.

Mr. BEEDY. Now, here is a reparations loan on the market. The National City Co., engaged in the investment banking business, has already analyzed those loans and decided whether it will sell those bonds, and if the City Bank Farmers Trust Co. has some trusts which authorized the purchase of securities from the National City Co., your trust-minded men, if they are so minded, may buy reparations loan bonds and put them into those trust estates.

Mr. MITCHELL. Yes.

Mr. BEEDY. I would like to ask you if you think it is wise to set up in one organization an institution with authority in the management of trust estates to purchase of another separate department in the same organization a foreign issue of bonds, such as the reparations loan bonds will be?

Mr. MITCHELL. As I see it, you are getting down to this specific question: Will a group of trust-minded executives and members of the executive committee or board of directors determine that the German reparations bonds are fit for trusts?

Mr. BEEDY. Yes.

Mr. MITCHELL. That is a problem that has not anything to do with any investment banking policy or operation of the investment affiliate. That is a question for the trust-minded man to determine. Now, let us assume that he did determine that those bonds were a right and proper investment for certain trusts, and the National City Co. had no interest in that issue at all. Then the trust company would go out and buy those bonds where it could. I do not get the strength of the argument that it is wrong if in that particular instance the City Bank Farmers Trust Co. buys its securities directly through the National City Co.

Mr. BEEDY. Let us assume that the National City Co. does not have any interest in the reparations loan, and you put your trust-minded man on the problem whether those bonds are a proper buy. Then let us assume again that the National City Co. is interested in the sale of a certain number of those bonds. Do you think it would have any tendency to affect the judgment of your own trust-minded man as to whether or not those bonds were a good purchase for the trust estate?

Mr. MITCHELL. Absolutely not.

Mr. BEEDY. That is, your organization is so perfect that the human element does not enter into it at all?

Mr. MITCHELL. It does not with respect to matters of that sort. My experience over a long period of years makes me answer that in a very positive way.

Mr. BEEDY. You know that there is some discussion as to the advisability of setting up under one organization the trust affiliate and the commercial bank.

Mr. MITCHELL. I know that; yes.

Mr. BEEDY. But you do not see any danger in it if the management is proper, and these departments are kept separate and run separately in so far as it is possible to do so?

Mr. MITCHELL. Absolutely not.

Mr. BEEDY. That is all.

The CHAIRMAN. Judge Brand.

Mr. BRAND. Are you willing when you go home or while you are still in the city to send in for the record a clear definition of chain banking, branch banking, and group banking?

Mr. MITCHELL. It would seem to me that your committee has been a greater contributor to those definitions than I could possibly be. I take my own definitions from what I got out of the reports of your hearings, and I have no other views.

Mr. BRAND. Have you been able to find that any two witnesses have given the same opinion about it?

Mr. MITCHELL. I have gathered the definitions from my readings of the reports of these hearings, and while I may be wrong, if you wish me to give you the definitions as I understand them—

Mr. BRAND. Yes; I would like to have you define chain banking, branch banking, and group banking at this time, and also state the distinct differences between the three systems of banking.

Mr. MITCHELL. Branch banking I understand to be where a parent bank establishes offices, assuming full and complete responsibility for the acts of those offices and pledging for the fulfillment of any obligations made by those offices the full resources of the parent company.

Chain banking I understand to be where two or more banks are owned completely or as to the majority of their stock by an individual who has a general supervision of the banks so owned.

Group banking differs from chain banking in that there is a holding company supplanting the individual, which holding company makes it its business to develop for the benefit of the group, experts on one or another phase of the banking business and to give inspection and control to the banks in its group.

Now, those definitions as to chain and group banking I have drawn very largely from what I have read of the hearings before your committee, and maybe I have misunderstood them.

Mr. BRAND. As I understood you, and I will ask you if it is not a fact, in both branch banking and group banking systems, the parent bank controls the directorate of the unit banks belonging to the two different systems?

Mr. MITCHELL. They must control the election of the directors.

Mr. BRAND. That is what I mean, that in both systems they have a right to say who shall be the directors.

Mr. MITCHELL. As a majority of the stockholders, yes.

Mr. BRAND. Is that true of chain banking?

Mr. MITCHELL. It seems to me it must be equally true of chain banking.

Mr. BRAND. I suppose so.

Now, one other question. What protection is given to the depositors in the case of the insolvency or failure of a bank in a group system and a branch system?

Mr. MITCHELL. As I pointed out, in the branch system the entire resources of the parent are pledged to fulfill the obligations of the branch in every case.

Mr. BRAND. In other words, the parent bank is made liable to give full satisfaction to all creditors of that particular bank?

Mr. MITCHELL. They must.

Mr. BRAND. Including depositors?

Mr. MITCHELL. They must.

Mr. BRAND. Is that also true of the group banking system?

Mr. MITCHELL. Not necessarily, but from a practical standpoint it seems to me it would probably work out very much the same way.

Mr. BRAND. You have set out in your statement that you have 98 branches in 23 different countries. Would it be objectionable to you or to your institutions to furnish the committee with the names of the countries where these banks are located?

Mr. MITCHELL. No; I can give that to you now if you wish it.

Mr. BRAND. And also the lawful rates of interest to be charged in those countries and the rates of interest you charge.

Mr. MITCHELL. I hardly think I could do that, because interest rates are a fluctuating thing. We can not be in any country and charge more than a competitive rate.

Mr. BRAND. Would you mind, then, confining your statement to the rates of interest fixed by law in the 23 countries, omitting what rates you charge in those countries?

Mr. MITCHELL. I would be very glad to, indeed. I fail to recall at the moment any country where the lending rate is established by law, but I will be very glad to investigate and advise you.

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

(The information referred to is reproduced below.)

THE NATIONAL CITY BANK OF NEW YORK

Maximum contractual legal rate of interest fixed or permitted by law in the respective countries as indicated.

Argentine, none; Belgium, none; Brazil, none; Cuba, none; Colombia, none; England, none; France, none; Haiti, none; India, none; Japan, none; Mexico, none; Panama, none; Peru, 12 per cent; Philippines, 14 per cent; Porto Rico, none; Santo Domingo, none; Straits Settlements, none; Uruguay, none; Venezuela, none; Chile, present rate as tabulated, rate is revised each six months, 13.41 per cent; China, probably none, but can not be set forth definitely due to present governmental conditions prevailing except at Hong Kong (British Crown Colony), none; Italy, legal rate is subject to determination by court after review; Spain, legal rate is subject to determination by court after review, 8 per cent accepted in general, 12 per cent has been permitted in unusual cases.

The CHAIRMAN. Mr. Mitchell, you will put in, if you have not already done it, a list of your foreign branches and your domestic branches?

Mr. MITCHELL. You have not asked me for it, but I would be very glad to put that in.

(The information referred to is reproduced below.)

THE NATIONAL CITY BANK OF NEW YORK

FOREIGN BRANCHES

Argentina: Buenos Aires, Rosario, Plaza Once.
 Belgium: Antwerp, Brussels.
 Brazil: Pernambuco, Rio de Janeiro, Santos (agency), Sao Paulo.
 Chile: Santiago, Valparaiso.
 China: Canton, Dairen, Hankow, Harbin, Hong Kong, Peking, Moukden, Shanghai, Tientsin.
 Colombia: Bogota, Cali, Medellin.
 Cuba: Caibarien, Camaguey, Cardenas, Ciego de Avila, Cienfuegos, Florida, Guantanamo, Holguin. Habana—Belascoain, Cuatro Caminos, Galiano, La Lonja, Manzanillo, Matanzas, Moron, Nuevitas, Palma Soriano, Pinar del Rio, Plaza de la Fraternidad, Remedios Sagua la Grande, Sancti Spiritus, Santa Clara, Santiago de Cuba.
 Dominican Republic: Barahona, La Vega, Puerto Plata, San Pedro de Macoris, Santiago de los Caballeros, Santo Domingo City.
 England: London (west end), London (city).
 India: Bombay, Calcutta, Rangoon.
 Italy: Genoa, Milan.
 Japan: Kobe, Osaka, Tokyo, Yokohama.
 Mexico: Mexico City.
 Panama: Colon, Panama.
 Peru: Lima.
 Porto Rico: San Juan, Caguas, Arecibo, Bayamon, Mayaguez, Ponce, San-turce.
 Straits Settlements: Singapore.
 Uruguay: Montevideo.
 Venezuela: Caracas.
 Philippine Islands: Manila, Cebu.
 International Banking Corporation: Spain—Barcelona, Madrid. England—London.
 Banque Nationale de la Republique d'Haiti: Aquin (agents), Aux Cayes, Cap Haitien, Fort Liberte (agents), Gonaives, Jacmel, Jeremie, Miragoane (agents), Petit Goave, Port de Paix, Saint Marc, Port-au-Prince.
 The National City Bank of New York (France) S. A.: Paris, Champs-Elysees, Nice.

DOMESTIC BRANCHES

Manhattan:

Forty-second Street, Forty-second Street at Madison Avenue
 Fifth Avenue, Fifth Avenue at Twenty-eighth Street.
 Public Library, Fifth Avenue at Forty-first Street.
 City Bank Farmers, 43 Exchange Place.
 Bowery, Bowery at Bond Street.
 Canal, Canal Street at Broadway.
 Lenox Hill, 167 East Seventy-second Street.
 Madison Avenue, Madison Avenue at Seventy-second Street.
 Park Avenue, Park Avenue at Fifty-seventh Street.
 Upper Park, Ninety-sixth Street at Park Avenue.
 Varick Street, Varick Street at Vandam Street.
 Washington Heights, 4255 Broadway.
 Washington Square, Thirteenth Street at Fifth Avenue.
 Yorkville, 123 East Eighty-sixth Street.
 Fourteenth Street, 135 East Fourteenth Street.
 Thirty-second Street, 1 Park Avenue.
 Thirty-fourth Street, Thirty-fourth Street at Seventh Avenue.
 Fifty-seventh Street, Fifty-seventh Street at Seventh Avenue.
 Seventy-second Street, Seventy-second Street at Broadway.
 Seventh-ninth Street, Seventh-ninth Street at Amsterdam Avenue.
 Eighty-sixth Street, Eighty-sixth Street at Broadway.
 Ninety-sixth Street, Ninety-sixth Street at Broadway.
 East Midtown, 220 East Forty-sixth Street.

Brooklyn:

Peoples Trust, 181 Montague Street.
 Bay Ridge, Fifth Avenue at Fifty-fourth Street.
 Bedford, Nostrand Avenue at Herkimer Street.
 Bush Terminal, Thirty-sixth Street at Third Avenue.
 Flatbush, Flatbush Avenue at Church Avenue.
 Homestead, Pennsylvania Avenue at Liberty Avenue.
 Kings Highway, Kings Highway at East Fifteenth Street.
 Livingston Street, Flatbush Avenue at Livingston Street.
 Prospect, Flatbush Avenue at Bergen Street.
 Ridgewood, Myrtle Avenue at Bleecker Street.
 Wallabout, Clinton Avenue at Myrtle Avenue.
 Fourth Avenue, Fourth Avenue at Eighty-fifth Street.
 Eighteenth Avenue, Eighteenth at Sixty-fourth Street.

Queens:

Flushing, 85 Main Street.
 Jamaica, 92-11 Union Hall Street.
 Long Island City, Bridge Plaza East.
 Queens Village, Jamaica Avenue at Two hundred and eighteenth Street.
 Fresh Pond Road, 1030 Fresh Pond Road, Ridgewood.

Bronx:

Bronx, One hundred and forty-ninth Street at Courtlandt Avenue.
 Fordham, Creston Avenue at Fordham Road.

The CHAIRMAN. If you will, I should also like to have you state whether your branches are established under the laws of the countries in which the branches are located.

Mr. MITCHELL. Certainly.

The CHAIRMAN. Do you set aside a capital stock for those branches in foreign countries?

Mr. MITCHELL. In certain countries we do, and in certain countries we do not. The laws in certain countries provide that we shall and in others do not, and from our standpoint it makes no difference whether we establish special capital for them or not since our entire resources are behind each of our branches.

The CHAIRMAN. If you do establish special capital, do you carry it as an asset of the National City Bank or one of its affiliates?

Mr. MITCHELL. It is not done quite that way, Mr. Chairman. There is set aside for that branch so much capital in the currency of the country where that branch is located, but it is not necessarily a separate corporation. It is merely a given amount of capital allocated to that branch.

The CHAIRMAN. Do you receive deposits and pay checks in those foreign branches the same as you do in the parent bank?

Mr. MITCHELL. Yes.

The CHAIRMAN. Do you make deposits by the National City Bank or any of its affiliates in those branches?

Mr. MITCHELL. Occasionally, but only occasionally.

The CHAIRMAN. If the demand for money in a locality should exceed the resources of the branch, I suppose that would be an occasion where you would send additional funds?

Mr. MITCHELL. Yes.

The CHAIRMAN. Your balances abroad are not kept entirely in those branches?

Mr. MITCHELL. The balances of head office of the National City Bank?

The CHAIRMAN. Yes.

Mr. MITCHELL. Oh, no.

The CHAIRMAN. Do you keep open accounts with other banks in London and Paris?

Mr. MITCHELL. A great number of accounts with foreign banks.

The CHAIRMAN. And foreign banks keep balances with the National City Bank in New York?

Mr. MITCHELL. Yes, and also with the foreign branches.

The CHAIRMAN. And you buy and sell bills and carry on transactions with those foreign banks as you would with any local bank in the United States?

Mr. MITCHELL. Quite so.

The CHAIRMAN. Take, for instance, your branch in Cuba. Is that incorporated under the laws of Cuba?

Mr. MITCHELL. No, that is a full-fledged branch.

The CHAIRMAN. You are a director of the Federal Reserve Bank of New York, are you not?

Mr. MITCHELL. I am.

The CHAIRMAN. Are you a member of the clearing house committee?

Mr. MITCHELL. I am.

The CHAIRMAN. There has been much discussion about the scarcity of eligible paper for rediscount in the Federal reserve system. Do you consider that there is a scarcity of eligible paper for the proper conduct of the business of the Federal reserve system and its member banks?

Mr. MITCHELL. I think at the moment there is some scarcity of such paper, but I think that the condition is temporary.

The CHAIRMAN. There have been suggestions made to this committee that we make eligible for discount at the Federal reserve bank certain additional classes of paper, representing partial payments in some form or another on notes of dealers, secured by municipal bonds in certain cases, and others have suggested that we make available for rediscount notes secured by railroad bonds and real estate loans.

Would you think it advisable to increase the eligible list to the extent of including any one or all of those classes?

Mr. BEEDY. Mr. Chairman, has that anything to do with branch, group, or chain banking?

The CHAIRMAN. It has very much to do with it, because it deals with the assets of these banks.

Mr. BEEDY. I do not see what difference it makes what the assets are. The question is whether it is better to have those banks operate as unit banks or in a chain, group, or branch banking system, and I do not see how that figures.

The CHAIRMAN. If the gentleman objects, I will withdraw the question.

Mr. SEIBERLING. We have gone into that with practically all the witnesses we have had here. There is a wide interest in the subject.

Mr. BEEDY. Not with my permission.

Mr. MITCHELL. I would be glad to answer it, Mr. Chairman.

Mr. BEEDY. I object to it.

The CHAIRMAN. You are operating a number of branches, and I am presuming that in your case, where I know you analyze the districts very carefully, all of these branches are on a paying basis?

Mr. MITCHELL. In New York, all except branches recently established. Of course, it takes time for any branch to run from the red to the black. By and large, our branches run into the profit column

within an average, I should say, of about eight months from the time of opening. New branches that were opened within that eight months period I would not say are universally profitable at the moment, although one branch that we have opened within this period has been in the black from the time it opened.

By and large, our branches in New York are profitable.

The CHAIRMAN. If after a reasonable test you find, however, that they are not profitable, what would be your policy?

Mr. MITCHELL. To close them, because we do not believe in conducting anything in banking that does not pay its board.

The CHAIRMAN. Would you not say that in many of the cities—say, for instance, your own city of New York—there are probably many branches now that are not on a paying basis?

Mr. MITCHELL. I would not want to answer that, because I have not facts upon which to base an answer.

The CHAIRMAN. But is it not a fact that in certain districts in New York City they have too many branch facilities?

Mr. MITCHELL. That they are overbanked?

The CHAIRMAN. Yes.

Mr. MITCHELL. I think there is a tendency that way just at the moment, but our districts grow up to the facilities so rapidly in the city of New York that I think the inclination of the bankers' mind would be to let the branches stay there and let the territory grow up to them.

The CHAIRMAN. Do you see any danger, Mr. Mitchell, in the possible concentration through mergers and consolidations of banking assets in New York? In other words, do you see any danger in the control of credit and banking resources in the organization, for instance, of a bank of five billions or ten billions in New York?

Mr. MITCHELL. Absolutely not.

The CHAIRMAN. Do you think that competition will always be maintained even though we should ultimately get down to four or six banks in New York City?

Mr. MITCHELL. Quite so.

The CHAIRMAN. Do you feel perfectly sure that the average man would find that he could have his wants properly taken care of and do a banking business with those large units as well as he could if he were served by smaller banks?

Mr. MITCHELL. I feel certain of it.

The CHAIRMAN. You do not think that rules and regulations would be promulgated which might limit his ability to get banking accommodations?

Mr. MITCHELL. I would have no fear of it.

The CHAIRMAN. In connection with the questions that Mr. Beedy asked you in regard to the affiliated companies and your trust department, which is the City Bank Farmers Trust Co., do you think the fact that you are chairman of each one of your three units would influence the attitude of the board, for instance, of the trust company to take on certain securities in which one of your other companies would be interested?

Mr. MITCHELL. I do not think I would long hold my position if that influence were apparent.

Directly answering your question, no.

The CHAIRMAN. The National City Co. originates and distributes securities, does it not?

Mr. MITCHELL. Yes.

The CHAIRMAN. And as I understood you to say, one certificate of stock represents ownership in the National City Bank, the National City Co., and the City Bank Farmers Trust Co.?

Mr. MITCHELL. Direct ownership in the National City Bank and a beneficial interest in the City Bank Farmers Trust Co. and the National City Co.

The CHAIRMAN. Does the National City Co. buy and sell National City Bank stock?

Mr. MITCHELL. It does, as a trading post.

The CHAIRMAN. But the City Bank Farmers Trust Co. does not do so?

Mr. MITCHELL. No.

The CHAIRMAN. Inasmuch as the national banking act prohibits a national bank from buying, owning, or selling its stock, do you see any possibility of the affiliated company, which has the same stockholders, being in violation indirectly of that law?

Mr. MITCHELL. I think it could only be considered an indirect violation if they bought and continued to hold. Buying and selling as a trading post and never continuing for any period to hold the shares seems to me to completely strip that problem of any danger whatsoever.

The CHAIRMAN. The National City Co., as you say, originates and markets securities. Does it maintain the market for its securities—in other words, does it enter into any pools for the maintenance of the market in connection with the securities in which you are particularly interested?

Mr. MITCHELL. The National City Co. attempts to find buyers where securities are to be sold by investors, and where those securities have National City sponsorship.

So far as entering into pools, no; if I understand your question correctly we have never had a case of that sort.

The CHAIRMAN. As I understood your statement, the National City Bank, of course, is a national bank, chartered under the national banking act, and the National City Co. is organized under the corporate laws of the State of New York?

Mr. MITCHELL. Yes.

The CHAIRMAN. And the City Bank Farmers Trust Co. is organized under what law?

Mr. MITCHELL. Under the laws of the State of New York.

The CHAIRMAN. Not under the corporation laws?

Mr. MITCHELL. No; under the banking laws of the State of New York.

The CHAIRMAN. Is that examined by the State banking department?

Mr. MITCHELL. It is.

The CHAIRMAN. Is the National City Co. examined by the banking department of the State of New York?

Mr. MITCHELL. No; it is not. The Comptroller has always had the statement of the National City Co.—I say always; he has had it in recent years, and in addition he is invited to examine every cross transaction between the bank and the company.

The CHAIRMAN. That opportunity is voluntarily offered by the National City Bank?

Mr. MITCHELL. Yes.

The CHAIRMAN. Has he, as a matter of fact, examined the National City Co. simultaneously with the National City Bank?

Mr. MITCHELL. No complete examination.

The CHAIRMAN. Is there a simultaneous examination of the three companies at all?

Mr. MITCHELL. No, there is not.

The CHAIRMAN. In connection with the trust business, you spoke of the different angles of the banking business being conducted under one roof, so to speak, and I want to ask you if you would be in favor of the segregation of the assets of banks? For instance, where national banks are doing the different classes of banking business, would you favor the segregation of assets to give a preference to certain depositors over other depositors?

Mr. MITCHELL. No; I would not.

The CHAIRMAN. You do not see any danger in subjecting the saving deposits to the risks of commercial transactions?

Mr. MITCHELL. No; I do not.

The CHAIRMAN. You do not feel that they should have a preference in the assets in case of the failure of a bank?

Mr. MITCHELL. No; I do not.

The CHAIRMAN. I am referring particularly now to the operation of banks under such law in California, which apparently has worked successfully.

Mr. MITCHELL. Yes; I realized that. My answer would be no.

The CHAIRMAN. Do any of your affiliated companies own a seat on the Stock Exchange?

Mr. MITCHELL. No.

The CHAIRMAN. Your stock and bond dealing is all done through independent houses?

Mr. MITCHELL. They have to be. You know that the New York Stock Exchange does not permit any corporate membership whatsoever. We, with other New York institutions, are seeking the establishment of a new form of special membership in the exchange so that we may deal directly in bonds on the exchange.

The CHAIRMAN. Some houses have officers or members of the firm hold the seats on the exchange. Do you cover it in that manner?

Mr. MITCHELL. No; we do not.

The CHAIRMAN. There has been some discussion here, and while it perhaps does not have particularly to do with branch, chain, and group banking, it does indirectly affect it, in connection with the fixing of rates on the New York money market. The committee has not yet got hold of a man who has been able to tell us just the process in which the daily rates for money in the New York money market is fixed.

Mr. MITCHELL. Are you speaking of the call rate?

The CHAIRMAN. Yes.

Mr. MITCHELL. The call rate is fixed by the Stock Clearing Corporation, which is a corporation attached to and owned by the members of the New York Stock Exchange. That committee, a committee of the Stock Clearing Corporation, review every morning the loans made to Stock Exchange members the day before and the rates, and they establish a rate which in their opinion is a fair rate in the light of the pre-

vious day's lendings and in the light of what is known of the money market that morning.

By and large, I believe that their work has been well done, and it is done as accurately as it could be by anybody. The establishment of that rate does not make it incumbent on any bank to accept it, and certain of our banks refuse to accept the rate so established whenever they deem it to be unfair. But, by and large, in the great majority of instances that rate is accepted, but if it ever failed in fairness over a period, it would not be an accepted rate.

Mr. BEEDY. That is a committee of about three men?

Mr. MITCHELL. I think three men are on it. It is a committee that is under the supervision of Mr. Streit.

The CHAIRMAN. Does the management of the Federal Reserve Bank of New York have any influence over those rates?

Mr. MITCHELL. They have no influence on that rate at all.

The CHAIRMAN. The Federal reserve people have no influence over that committee?

Mr. MITCHELL. No, sir.

The CHAIRMAN. It is a free committee?

Mr. MITCHELL. Absolutely free.

The CHAIRMAN. And the independence of that committee is made secure by the check referred to, that any bank can disagree with that rate?

Mr. MITCHELL. Yes, sir.

The CHAIRMAN. That is a check, is it not?

Mr. MITCHELL. That is a check; oh, yes. It is more or less of a rebuff that that committee does not relish, to have any bank in New York refuse to accept the rate, because it indicates that they have either missed something in their calculation or that they have not been fair.

The CHAIRMAN. How is that committee designated?

Mr. MITCHELL. I can not answer that, Mr. Chairman. It is a committee that has to do with the Stock Clearing Corporation, and is really under New York Stock Exchange control. It is a committee of members of the exchange.

The CHAIRMAN. And the men on that committee are of long service in that particular line, as I understand it?

Mr. MITCHELL. Yes; they are.

The CHAIRMAN. They are experienced in that class of work, and and continue from year to year to act in that capacity?

Mr. MITCHELL. Yes; that is true.

The CHAIRMAN. Can you tell us also, in regard to the short and long time money market, how that rate is arrived at?

Mr. MITCHELL. That is not fixed at all; it is established purely by the conditions prevailing from day to day. For instance, we are having in New York at the moment a 3 per cent call rate. You may have noticed that 30-day time collateral loans have gone to a 2½ per cent rate, indicating that certain bankers feel that during the next thirty days the call rate will be lower than the average of 2½ per cent. That is a matter purely of the individual banker's view, and if some banker is unable to put out 30-day money at 3 per cent and elects to offer it at 2½ in order to get takers, then 2½ per cent becomes the rate you see announced in the paper as the 30-day rate. But there is nothing that binds any bank with respect to it.

The CHAIRMAN. Mr. Dunbar, in his questioning of you a little while ago, referred to a period a little over a year ago when your bank made a loan of \$25,000,000 to the market. As I recall it, about that time the call rate ran up to about 20 per cent, and I think perhaps a little higher than that?

Mr. MITCHELL. Yes.

The CHAIRMAN. And now the rate is $2\frac{3}{4}$ per cent, you say, or around 3 per cent?

Mr. MITCHELL. Three per cent.

The CHAIRMAN. Have you any comment to make as regards our banking system that permits such a wide spread in rates over apparently such a short time? Do you think it is the fault of our banking system that causes that, or, what in your judgment, causes rates to vary, and should they be permitted to vary that way? In other words, is it a sad commentary on our bankers or our banking system that those things exist?

Mr. MITCHELL. It is an absolutely necessary thing that they do exist. Rates are like the pharmaceutical thermometer or register; they show the condition of the patient from time to time. If you tried to stultify the movement of rates and make them artificial, you would be unable to get a gauge of the situation existing at any particular time. There should be freedom of rates. When credit is plentiful, the interest rate is going to show it, and when the use of credit is being overdone, the interest rate is going to show it—it becomes a red flag.

The CHAIRMAN. You recognize, do you not, that it is within the power of the Federal reserve system to check that?

Mr. MITCHELL. Not altogether. The high rates that existed a year ago did not exist in so-called commercial loans at all. As you know, the commercial rate was from $4\frac{1}{2}$ to 6 per cent, while at the same time loans on call were jumping from 10 to 20 per cent. Bankers like to keep their own portfolios balanced; no banker is going to lend all of his funds in the call market regardless of the rate existing in the call market. He must take care of his commercial customers if he is going to continue to do business.

Now, if the bankers are aiming to maintain a balanced portfolio for themselves and have enough of collateral loans and enough of call money in their portfolios, and there comes a demand for additional call money, those bankers are not going to the Federal reserve and rediscount to get it unless there is some incentive given them through the interest rate to get it, and then only to a limited extent. So that rates with respect to this class of loan or that class of loan are going to vary from time to time, and you have got to expect collateral loans to carry very different rates than commercial paper and, perhaps, from time to time one will be higher and again lower.

The CHAIRMAN. During the particular time I have just referred to, there was being applied by the Federal reserve system a restrictive policy against the release of credit for speculative purposes, was there not?

Mr. MITCHELL. Quite so.

The CHAIRMAN. To get back to this suggestion that was pending here before the committee as to the possible extension of branch banking or legislation affecting this whole general development, as I understand your position you feel that in certain cities or centers

perhaps branch banking should be extended to what might be termed "contiguous territory"? For instance, take New York City; you have mentioned outlying districts on Long Island.

Mr. MITCHELL. Yes.

The CHAIRMAN. Would you also include within your scope there Jersey City, for instance, and Newark, and other cities lying in close proximity to New York City but in another State?

Mr. MITCHELL. Well, frankly I do not know, Mr. Chairman. That is a very difficult problem. Purely from the economics of the situation, and from an operating banking problem, I should say yes—extend it to include the environs of New York regardless of what state they may be in. I realize, however, that there are other problems that enter into the situation that make it very difficult. It may be that I myself would find those objections, so strong as to outweigh what I feel is a proper economic development and a perfectly feasible development from a bank operating standpoint.

The CHAIRMAN. It has been urged upon the committee that branch banking be permitted within trade areas, but we are all impressed with the uncertainty as to what a trade area is. The other day when Mr. Wiggin was before the committee, he defined a trade area to include the United States and perhaps the world, so far as the Chase Bank was concerned: he would not want to restrict the term "trade area" to any small unit, but he did not know what a trade area was.

Mr. MITCHELL. I can not but believe that even if we could define it, it would be too broad a movement, too great a step to take at one time.

The CHAIRMAN. Mr. Wiggin did recommend, however, as I recall his testimony, that branch banking be extended state-wide in those States where branch banking was permitted under the State law—he felt that national banks should be given that right. Mr. Davison, who appeared before the committee here in opposition to branch, chain, or group banking, distinguished, however, between the two forms of branch banking, that which is now permitted within city limits and all other branch banking.

Do you care to be any more definite than you have been as regards these several plans that have been suggested?

Mr. MITCHELL. No; I do not know that I do, and yet city-wide branch banking and, let us say, suburban-wide branch banking, seem to me to be so nearly alike that we have got to set up some really false lines to separate them.

Mr. Chairman, my view is that branch banking has distinct advantages to the public, but that its development should be fostered with such care that we may know as we go along that the public supports its extension. I urge that we move very slowly. To go out into the suburban territory of a great city seems to me to be a logical step perhaps at this time. Take that step and let us see what the public reaction will be in the course of the next year or two.

The CHAIRMAN. You have stated that you experienced no difficulty in managing your several branches in and around New York.

Mr. MITCHELL. Quite so.

The CHAIRMAN. Would you say that if you were permitted to have branches state-wide, or Federal-reserve district-wide, or nation-wide, you would feel so sure about that? In other words, statements have

been made here that absentee management of a bank or branches and the long distances from a parent bank present problems which are in opposition to the theory of the development of branch banking.

Mr. MITCHELL. I doubt if you are going to have at any time strictly nation-wide branch banking with banks operated, let us say, the country over, from New York or Chicago.

The CHAIRMAN. I will say to you that Mr. Giannini and Mr. Bacigalupi, representing the Transamerica Corporation, indicated to us that they were ready to establish banks generally throughout the United States, when the law is changed to permit nation-wide branch banking.

Mr. MITCHELL. Yes, their view is that. My own personal view is that the sectional feeling and differences throughout the United States are so great that that would be unwise, even if it would be practical in operation. I could conceive of an extension of branch banking within given sections of the United States where it would not in any sense offend the public desires and where branches could be conducted with great safety and in the public interest, but it is hard for me to conceive of a New York bank operating a branch in Peoria, Ill., with great satisfaction, or in some city in Minnesota with great satisfaction except as the administration came from some center of that particular district that thoroughly understood the district, and where the directors and operating men were known and accepted in that district.

It seems to me that if the public sanctions an extension of branch banking, it is really going to come in regions and it may be that parent banks in various regions of the country will find some method by which they can contact one another and find a common interest. In other words, it may be that we are moving to a regional system, with branch banking within regions; I do not know, but I say let us not try to find the answer to the problem faster than experience points the way.

The CHAIRMAN. The comptroller, when he was asked the question whether there was not the possibility of the control of these various groups by, for instance, New York, when they would eventually develop throughout the country, it having been suggested that perhaps we would have 30 of these great areas with branches of other banks serving those areas, and then when that was finally consummated New York would reach out by force of necessity and take over control of those groups and operate them.

Mr. Wiggin suggested, as I recall it, that if the mad rush continued and the territory was taken over by these groups, it might force, for instance, the Chase Bank to get into the rush and preempt certain sections in order to hold the business.

Mr. MITCHELL. There is great danger of that.

The CHAIRMAN. Of course, we are facing a very practical situation.

Mr. MITCHELL. Yes.

The CHAIRMAN. Apparently, from the information that comes to us, there is a mad rush to take in all of the solvent country banks and control them, sometimes by responsible parties, and sometimes by what appear to be rather irresponsible parties. For instance, there is information coming to us from various sections of the United States that some groups are accumulating options on banks and others are

going out and feeling their way looking towards concentration of the development of this chain or group plan.

Have you any practical suggestions to offer to this committee as to how we are going to meet a situation of that kind? Should we just sit by and let this thing continue to develop naturally as it is and then, if trouble develops, meet the situation when it comes? You know, we have had experience in the past with the development of chains like the Manly chains in Georgia and Florida, where the banks were in weak hands and it spelled disaster.

The committee here are groping and trying to study this situation, and they would greatly appreciate suggestions from men like you who are at the head of our large institutions, because we want to deal intelligently with the situation, and at the same time we do not want to sit idly by and permit a situation to develop in this country that will spell disaster.

Mr. MITCHELL. As I tried to point out in the statement which I made at the outset, I do believe in some logical but not too drastic extension of the branch banking powers. I think that the development of group banking is inevitable, and if we feel that it is inevitable we should find some way at least to keep a check on it, to have a control of it, and that is why I suggest that in some manner or other these parent companies and groups come under the inspection at least—which to a certain degree means control—of the Comptroller of the Currency, and that they be considered national. I think that when these groups are formed under the laws of Delaware and have to do with the States of Texas and Oklahoma, it is a little far-fetched. It seems to me that there must be some national control introduced, and I think that that would avoid much of the difficulty that you fear.

The CHAIRMAN. Of course, we as a national legislative body can only deal with national institutions.

Mr. MITCHELL. Yes.

The CHAIRMAN. In that particular sense, with national banks and with the State member banks of the Federal reserve system. We can deprive banks of membership in the Federal reserve system, we could deny them the use of the mails, we could deny them the privilege of the collection of checks, and forbid interstate transactions by them. Those are all very drastic things.

Mr. MITCHELL. Could it not perhaps be done through the Federal reserve banks?

The CHAIRMAN. I introduced a bill mainly to bring about discussion, to the effect that before any of these banks were taken over by any of these groups the consent of the Comptroller of the Currency or of the Federal Reserve Board should be had. That suggestion, however, has met with opposition on all sides, but it does seem to me, as you suggest, that there ought to be some check on this or somebody to whom these proposals should be submitted, that there might be some safeguard put around them.

Mr. MITCHELL. I think there should.

The CHAIRMAN. For instance, I am told that there are two New York groups that are now attempting to organize the banks in Pennsylvania; one group in western Pennsylvania, and the other group in eastern Pennsylvania, picking out key institutions and proposing to control 25 to 50 banks in each of the two groups. That means much to the State of Pennsylvania for those old and the best institu-

tions, conveniently located throughout the State, to be taken over by some group in New York that is unknown to that particular territory and to be controlled for some purpose—we do not know what.

But that same thing is apparently taking place in many other places. I was told recently that a group in New York and Chicago were considering taking over 200 banks in Texas. It seems to me that this is a development over which there should be some check.

Mr. MITCHELL. I think there should, Mr. Chairman. I agree with you.

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

Mr. STEVENSON. I have not been attending these meetings; I have been provisionally detained.

I would like to ask this, and I guess the answer would be that I ought to know it as well as Mr. Mitchell.

When an institution organizes in Delaware and takes over banks in Pennsylvania, New Jersey, Texas, the Carolinas, and so on, is not that institution embarking in interstate commerce? Would it not come within that provision of the Constitution and, if so, the answer would be that we could control it, provided that it went out of its own State.

Mr. MITCHELL. I think that that is very largely a legal question, and I am not a lawyer, but as a layman I should doubt the ability to control it through that channel.

Mr. STEVENSON. This is the question: Is banking, which is so ramified that it is dealing in finances in the different States and as between each other, commerce? It seems to me that that would be the only way we could control the situation, except with respect to our own institutions, the national banks. But, with respect to State institutions, are they engaged in interstate commerce when their transactions go across State lines? It has not usually been so determined, but we know that the commerce clause of the Constitution has been very widely extended.

Mr. BEEDY. If the transmission of a message on the telephone, a conversation over telephone wires, is commerce, why is not the exchange of credits and the transmission of securities?

Mr. STEVENSON. That is the question: Why is that not commerce?

This development with respect to branch banking and group banking has been illustrated in my own State, South Carolina. There is a national bank in the State that has acquired a small State bank, a \$200,000 bank, and it is placing branches of that bank all over the State under the State law. Of course, the national bank is not responsible legally for the liabilities of those small institutions. Now, which is preferable, for the national bank to have the authority to establish its own branches, branches where you can point to the head that is responsible for everything, or to have those groups for which the head is not responsible? In other words, as between group banking as it is developing there and national banks with the right to establish branches, which would you say was preferable as a banking proposition?

Mr. MITCHELL. I have always contended that if a banking institution desires to do business in some part of the country or the world, where it is permitted by law, that it is better to go in under its own name and its own flag and pledge its resources to the maintenance

and to the fulfillment of contracts made by its organization, than to go in through a subsidiary or an affiliate.

This is a broad question. I have been often asked why in the various countries where we place our branches we do not separately incorporate in order to limit liability. My own personal view is that we might just as well go there ourselves and take full responsibility for our own acts, that that is really the proper way and what the public should expect us to do.

Mr. STEVENSON. And the public knows then who is responsible.

Mr. MITCHELL. Absolutely.

Mr. STEVENSON. I agree with that proposition very thoroughly. I am rather dissatisfied with the situation that is developing, on that account.

Now, in the other instance, the oldest known bank in South Carolina has lately converted into a State bank and it is placing branches in its own name all over the State, and the two of those Charleston institutions are about covering the State and I think the latter method is preferable, but they could not follow it as a national bank and they had to convert into a State bank. Mr. Rhett's bank has thirty-odd branches in the State, and all this presents one of the questions that we are going to have to deal with here, whether we have any control over these groups organized under State charters, whether we can ever control them or not, unless we can under the interstate commerce clause, and I doubt if we can.

Mr. MITCHELL. Or through Federal reserve banks.

Mr. STEVENSON. Well, they can stay out of the Federal reserve system. The fact is that this very institution that I spoke of that Mr. Rhett has organized and which is establishing these branches has to stay out of the Federal reserve system under the McFadden Act, because they have branches all over the State now, established since the passage of that act.

Mr. LUCE (presiding). Is that all, Mr. Stevenson?

Mr. STEVENSON. That is all.

Mr. LUCE. Mr. Mitchell, you happily and tersely expressed one of your opinions here by saying that you did not believe any banking operation should fail to pay its own board. The idea embodied therein has an important bearing on our problem. Our attention here is chiefly called to the big men, particularly the big borrowers. Now, where there is one big man, there are a thousand little men, and especially when primaries and elections are approaching, a Member of Congress remembers the little man.

I have been a little man in business all my active life, and I would like to lay before you an experience and get your judgment.

If this widespread apprehension that the growth of group banking and of holding companies of every sort is a menace to the country is well founded, that situation ought to be met. A correspondent in the West who has had wide opportunity to observe public affairs recently wrote me a long letter in which he predicted that the one live issue in the next presidential campaign would be this question of the amalgamation of wealth, with danger and injury to the little man.

Many years ago, as a young man, while still in newspaper work, I shared in starting a magazine. The subscriptions were a dollar a year. After a few months the bank in which the dollar checks were

deposited asked me to withdraw the account. Ever since then that bank has nestled in the center of a very sore spot in my heart—in other words, that bank cultivated ill will by refusing to do business at a loss.

Not long afterward I shared in starting another business, which in the course of time found its main office located in New York, where it established banking connections. It does not borrow any money—we do not believe that is the way to prosper and be happy—but it does deposit. Some years ago we found that our bank balance had become substantial and we asked that bank to allow us interest thereon. After considerable hesitation, reluctance and demurring, the officers in the bank finally consented, and we are getting, I believe, 2 per cent interest on our balances. When that balance gets down below \$15,000, the bank begins to grumble, and if it approaches \$12,000 it intimates that it will cut off the interest.

I have watched in Boston and New York the steady development of big banking, and what has seemed to me the steady progress of a tendency to pay less regard to the little fellow. We are here getting from every direction expressions of fear that these amalgamations all through the business world are an injury to the 115,000,000 little people in this country, to the benefit of the 5,000,000 big people.

To give you another illustration from my personal experience. Last winter an ice storm damaged the telephone line to my summer home so greatly that it must be rebuilt. The manager informs me that he will stand half of the cost. His half will amount to several hundred dollars and what I shall pay for service in 10 years will just about offset his share of the cost of rebuilding the line. He is doing that because it is to his advantage to have me as a subscriber, that his system may be larger by one. It is a benefit to the whole system, even if it seems to lose money in this particular transaction.

We are appropriating here every year large sums for rural free delivery of the mail, conducted at a loss. That is true in many directions. Municipalities will lay water mains to reach remote points where the charges do not nearly represent the cost of the outlay; build school-houses where children are few; furnish fire and police protection in outlying districts.

The word "national" is in the name of your institution; you have received a charter from the Federal Government, a very valuable possession upon which in your own case you would place a valuation of many millions of dollars, and you are furnished inspection by the National Government, and you are furnished the Federal Reserve Board with all of its advantages. Yours is thus recognized to be a quasi-public institution.

Under all these circumstances, I wonder if you want to qualify your statement that you do not believe in doing anything at a loss?

Mr. MITCHELL. Mr. Luce, will you let me take the time for my answer that will match that taken by your question, because I would like to give you a little of my own background of experience, to show you what a great bank is doing for the small capitalist; for if there is any one class which interests me, it is the little-fellow class.

Mr. BEEDY. You would make a good Congressman. [Laughter.]

Mr. MITCHELL. I go back to the time when we started in operation the National City Co., and before I had anything to do with the National City Bank. We started out to develop the investment

banking business to a point where the small capitalist could have the advantage of some knowledge, at least, of investments, and an opportunity to make investments himself. Our work was materially aided by the Liberty Loan campaigns; we realized that if a man held a Government bond, he was safe from becoming an anarchist, because a man, and especially an American, sees through his pocketbook: and following the Liberty Loan campaigns we made it our great endeavor to put railroad bonds, public utility bonds, and then industrial bonds into the hands of this same small capitalist, tending to save him from socialistic bent.

I think that a great deal has been done in this country by the investment houses in educating the small capitalist. The National City Co. to-day does a business, in the distribution of securities, of something over two billions of dollars a year, but with respect to the issues going to the public, and I mean issues suitable for the public, our sales have run about \$3,000 to an individual. Therefore, in the National City Co., we have brought about contact with a public of smaller people.

When I was a young man, to go back, Mr. Luce, I came to New York and my family was developing and it became my desire to open some savings accounts. There was a certain savings bank in Wall Street, where I attempted three different times to open a savings account, and lost the time allotted to me for lunch because the line extended out to the street and I never did get to a window. Subsequently I went to the savings banks and found queues of people who wanted to withdraw their money, and I saw how hard it was to get it out, and, being interested in thrift through my own experience, I said that if I were ever in position to do it I was going to find the way to make it easy for people to save and easy to get their money out of their savings accounts.

When I came to the National City Bank, one of the first papers that was laid upon my desk was a lease for a basement in the old Manhattan Hotel at Forty-second Street and Madison Avenue, which you all remember. Our bank had taken over that hotel building and it was remodeling it into a bank and office building and this lease was about to be made of the basement to a gents' furnishing house of repute in New York. That lease I tore up for there I saw the opportunity for setting up the equivalent of a savings bank. To make a long story short, we did it, and that business was built up on a stop-watch basis—how long does it take a man to get his money in, and how long does it take to get his money out? No queues, no lines; it must be perfection of service.

Then, as it developed, ways and means for taking care of that little fellow were studied. One question was what we were going to advise him to do with his money when it got to a sizeable amount, when he should be doing something more constructive with it. How could we take him into our commercial bank and give him a checking account, and by what machinery could we take care of him with loans at the time he might want them?

We have consistently paid less than the mutual savings bank rates of interest in that department, that "compound interest department" which I so named at that time because "compound interest" had a lure for every youth and would induce savings—and we have gone on with that development to ever-increasing volume and success.

It is only about eight years since that department was established, and we have to obey the clearing house regulations—3 per cent interest as a maximum, although we are in competition all of the time with savings banks that pay from 4 to 4½ per cent—yet in New York City to-day we have 346,000 accounts running to a total of \$73,130,000. Where we have put this same system in some of our foreign branches and preached the benefits of thrift to people, we have gathered 163,000 additional accounts, amounting to a total of \$47,000,000. That department of our business to-day therefore carries 509,000 accounts and deposits of over \$120,000,000.

Mr. BEEDY. Those are all compound interest accounts?

Mr. MITCHELL. Yes. We have also gone after the little fellow who is forced to make a small loan, largely on personal credit, and who has previously had little opportunity to do so except through the so-called loan sharks or the high rate industrial loan banks.

Two years ago last month, we set about to make such loans to needy people at what might be a fair interest rate, a rate that would pay its board, and we have given loans from that day at an effective rate 8 per cent lower than any known agency across this country has offered heretofore and we have made in this 2-year period 145,000 such loans, running in the aggregate well in excess of \$50,000,000. We have at the moment on our books approximately 77,000 loans of that character, running to a total of \$26,000,000.

Now, Mr. Luce, we do not yield our position to any one in the way we have beneficially affected the smaller fellow. Our bank years ago was looked upon solely as a bank for the larger interests, a bank where no one who had anything short of a pretty good sized fortune might have any contact at all, but to-day our bank is a bank of the people, and it gives me great pleasure to feel that we are really serving this class of the community. Over 30 per cent of all that money loaned on those small loans has gone to pay doctors' bills and dentists' bills and hospital bills. Doesn't that give you a thrill? It gives me one.

Mr. LUCE. It certainly does.

Mr. MITCHELL. When I realize how many people we are keeping off of the charities and who are made self-respecting, that gives me a thrill. At the same time this service pays its board—it is profitable. In our compound-interest department, which is the equivalent of savings, any man can get 3 per cent interest, compounded monthly, and if he ever wants to make a withdrawal, he can step up to a window and get a cashier's check. He does not have to have a checking account unless he has real need of a checking account. Now, if he wants a checking account, he can go to our commercial department and if he has a small account, with a lot of checks on it, we make a service charge. If it is a small account, that really should not be a checking account, but ought to be where it is getting this higher interest offered to savings, we do transfer it if the depositor insists and we make a service charge. We watch the individual, and if a person wants a checking account and has apparently little use for it, but it gives him some self-respect to have it, and if it promises to be a good thing for that man, we make no charge. We have no standard rules for it, but we try to analyze every small account in our bank to the

end that we can give to the small fellow all the advantages that the larger capitalist has and always extend a helping hand.

Now, Mr. Luce, one more thing. No one can handle that business of compound interest or that business of personal loans—and I can point to several other phases of banking of which the same thing is true—unless they do it on a mass-production basis. A little unit bank can not do it. I do not know whether it can be done through the group system or not, but I know that handled as we are handling it, it is possible to give to the public something that they can not possibly get out of the existing unit system.

I hope I have not taken too much of your time.

Mr. LUCE. No, sir. I think we are all very grateful to have this information, and, for one, I congratulate you. Also I think it is fair to contrast it with other information, coming to us, in addition to that resulting from our personal experience. Apparently all over the country there is an ever-spreading belief on the part of bankers that small checking accounts ought to be discouraged. There has grown up in this country in the last 30 or 40 years a very general and, what seems to me, a very useful system under which the householder, the woman who has charge of the shopping and the cooking, the boy at college, the small retailer, have been inconvenienced by the development of this system of checking accounts, but until you testified we had not had a glimmer of hope, for everything has been to the purport that small checking accounts are a nuisance, are costly, and ought to be discouraged, and that groups of banks have agreed, under the leadership of the larger banks, to put an end to it or to eliminate it as much as possible.

I have had a feeling that this is an unwise policy, and I have thought that it was poor business judgment on the part of the banks themselves. It has seemed to me they ought to remember that it is the little fellow who becomes the big fellow and that the public convenience and necessity call for some instances where that little fellow shall not have to pay his whole board.

That is why I asked you if you wanted to reconsider your rather broad statement.

Mr. MITCHELL. I think this, Mr. Luce, that the public must be served. I see no reason why banks should persist in methods of serving the public that mean loss to themselves. If they have an operation that is a loss to themselves, they should substitute something else where the customer will get what he wants and where the business can be done without loss to the banks. In our bank we constantly close small accounts, checking accounts which really there is no necessity for.

We put service charges, yes, on accounts where the depositors issue great quantities of checks every month and where there is no way to compensate the bank for the incidental work. Ordinarily such a man is very glad indeed to pay a small sum to his bank to take care of his business for him in that way. We do not turn these people out, for in any case where we contact a capitalist, no matter how small, we have a very keen interest in serving him, but we see no reason for serving him at a loss to ourselves, because we can always find the way to meet that man's requirements without a loss to our-

selves, and if we do not find it, it is our own fault in which we will be the sufferer.

If I may go one step further—and I feel I should apologize for the time I am taking at this late hour—I conceive that the small public need fiduciary service perhaps more than any other stratum of the public. You and I know that the trust companies are not able to handle small trust business under the methods that have been employed, and make a dollar out of it. The result is that trust companies have not urged the appointment of corporate executors and trustees in cases where the estates are very small. Now, I have contended that we must find a way, if we are going to serve the public, of giving to the small fellow all the advantage we can possibly give to the large personal trust or the large estate. We are trying to solve that problem through what we call the uniform trust. I do not know that we are going to do it, but I think we are.

The trust business in this country is just where the insurance business was 25 years ago. We are building a very large building for the trust company in New York, and I am of the firm belief that inside of the next 20 years the business of our trust departments in the lower part of New York is going to fill that entire building, and it is going to come through properly serving the moderately wealthy and the rather poorer classes of the public.

Mr. BRAND. May I ask one question there?

Mr. LUCE. Go ahead.

Mr. BRAND. You have dealt very sympathetically with "the little man," and the gentleman from South Carolina and the gentleman from Mississippi and all the other members of the minority of this committee come in contact with "the little man."

I want to ask you if you have the same feeling about the little bank relative to what benefit he is getting out of the Federal reserve system? In other words, do you not believe there ought to be something more done for the member banks, particularly the smaller member banks, than is being done now under existing law, either by paying them something out of the net earnings of the Federal reserve banks or out of the franchise tax which they are now paying to the United States?

Mr. MITCHELL. It is hard for me to see why there should be a differentiation between a bank of \$25,000 or \$10,000 or \$250,000 or \$2,000,000 when you come to a question of that sort. The particular question that you asked me does not seem to be one that applies definitely to any particular size of bank.

Mr. BRAND. I will make it more concrete and specific. The Federal reserve system was not established for the purpose of making money, was it?

Mr. MITCHELL. No.

Mr. BRAND. Woodrow Wilson never had that sort of an idea about it, did he, when he first brought his banking views to the attention of Congress?

Mr. MITCHELL. I do not know what he had in mind.

Mr. BRAND. Did Congress have in mind, when the Federal reserve act was being considered that the system should become a money-making machine?

Mr. MITCHELL. I do not know what Congress had in mind.

Mr. BRAND. What did you have in mind—that it should be a money-making institution?

Mr. MITCHELL. I say that there can be no Federal reserve bank that will properly function if it is fundamentally a money-making organization.

Mr. BRAND. There has been over \$146,000,000 paid by the 12 Federal reserve banks since their formation in 1914 as a franchise tax to the United States. There is not a single member bank in the Federal reserve system—and it does not make any difference whether it is a \$25,000 bank or a \$25,000,000 bank—that gets anything on its reserve funds, and all of the member banks of the country in the Federal reserve system have lost their right to charge for collecting checks and that kind of service.

Mr. MITCHELL. Yes.

Mr. BRAND. I want to ask you the direct question, in view of what you have said here to-day, if you do not think that out of the net earnings of the 12 Federal reserve banks it would be a wise thing and a fair thing to pay to the member banks, large and small, something over and above the 6 per cent on the paid-in capital stock?

Mr. MITCHELL. Let me put it this way. I think it would be a great mistake to impose any requirement as to the payment of dividends on the Federal reserve bank stock to the holders of that stock who are the member banks that would in any way cause a Federal reserve bank to feel under the necessity of making money. I can not believe that a central bank that feels the necessity upon it for money making is going to properly administer the problems that come to it. Money making must never be in the picture at all, but if money is made, and, of course, Federal reserve banks certainly should be able to make money with assets based upon other fellows' money for which they pay nothing, then I am inclined to believe there should be a more generous distribution of such profits as do occur among the members as against the National Treasury.

Mr. BRAND. That is an answer to the question, and a satisfactory one.

Mr. BUSBY. I have just a couple questions.

In your statement you call attention to the fact that group banking is playing a most important part, is steering the banking system away from the unit bank. Would it be possible to have group banking if we did not have the holding company that takes over the stock of the several banks and brings the group together?

Mr. MITCHELL. If I get the proper meaning of your question, I should say that there had to be a common tie.

Mr. BUSBY. And that common tie is through a holding company, under the practice that has grown up during the last 18 months or 2 years, is it not?

Mr. MITCHELL. It is; yes.

Mr. BUSBY. Without that common tie, or without the holding company and operating free and uncontrolled under the national legislation, it is impossible to bring together what is known at the present time as group banking?

Mr. MITCHELL. Yes.

Mr. BUSBY. And that usually consists of a number of very strong banks, and they often operate with branches and otherwise to form a system—am I stating the situation?

Mr. MITCHELL. Yes; if I gather your question, it is, can you have group banking without a holding company and have it on a cooperative basis, something of that sort—is that your thought?

Mr. BUSBY. That is the central thought; yes.

Mr. MITCHELL. Personally I do not think so.

Mr. BUSBY. I am asking that question to direct attention to this idea: Is it not at the present time largely a question of developing some means by legislation to deal with the holding companies if we are going to deal with group banking?

Mr. MITCHELL. I think you have got to find some way to control or to contact these holding companies. If it can not be done effectively by the States it must be done by the Nation, and if it is to be done by the Nation, it must be done either through the Federal reserve banks or through the comptroller's office.

Mr. BUSBY. For legislation to reach the ends we are trying to reach here, is not the pivotal proposition one of dealing with holding companies, and in doing so are we not incidentally dealing with the group banking situation to a large extent?

Mr. MITCHELL. I do not think I could quite answer that without further study of just what is in your mind.

Mr. BUSBY. But you do feel that holding companies are out in the open, free from any control by the National Government, and that that is a vital question we are confronted with at this time?

Mr. MITCHELL. I do.

Mr. BUSBY. Do you believe it is necessary to have the deflation both of property values and of credit that has grown up or that has been extended?

Mr. MITCHELL. We are having it; whether it is necessary to have it, or not, we are having it.

Mr. BUSBY. We had a deflation of credits in 1921, did we not?

Mr. MITCHELL. Yes.

Mr. BUSBY. Do you feel that that was helpful to the business interests of the country?

Mr. MITCHELL. I think that in economics, banking, and everything else, the laws of compensation and balance, of action and reaction, all hold. When you get an inflation, it immediately spells the word "deflation" as the reaction and you have got to have it.

Mr. BUSBY. Recently we had more inflation of credit than we did of values, if I understand the situation.

Mr. MITCHELL. Oh, yes; no doubt about that.

Mr. BUSBY. That inflation of credit was far beyond the industrial and commercial needs of the year 1928 or 1929, was it not?

Mr. MITCHELL. Yes.

Mr. BUSBY. That being the case, did it not tend to cause people to use that credit to deal in stocks, and participate in the market with a view to securing a bigger price for the stocks they purchased than that which they gave for them, rather than with a view to securing dividends?

Mr. MITCHELL. I assume so. At the same time, it seems that you are getting me a long way from branch banking, group banking, and chain banking.

Mr. BUSBY. I thought you had dealt with this situation, and knowing where you come from, I am coming to this point in connection with your bank's operation: When call money rates were good,

your bank stood in opposition to the attitude of the Federal reserve bank at that time, did it not?

Mr. MITCHELL. No. It did not matter and it does not matter what the rate is. The volume of call loans that we have on our books never depends upon the rate at all. The rate can be 3 per cent, or the rate can be 30 per cent, and I will guarantee that because of the rate there will not be any more call loans at the higher rate than there was at the lower. As a matter of fact, we are now operating under a 3 per cent call renewal rate, and we have, I think I am safe in saying, three times as much in the call money market to-day as we had a year ago to-day. Why? Because commerce is not taking our money. Our first obligation is always to our customer. The call-money market is not our customer, and we do not gain any lasting advantage by dealing with Mr. Call Money Market, but we do with Mr. Industry and Mr. Corporation and Mr. Farmer and Mr. Shipper.

Mr. BUSBY. Getting to the thought that your bank and a number of New York banks opposed the policy of the Federal reserve bank in fixing rediscount rates, did not your attitude tend to continue the spirit of inflation rather than to put a check on it and in that way bring to an end the orgy of speculation that everybody knew was on hand?

Mr. MITCHELL. I have been through two or three different kinds of panics; I do not know whether you have or not.

Mr. BUSBY. I have watched them pass.

Mr. MITCHELL. People who went through the panic, if you want to call it that, of last fall, thought that they had seen a panic, but the men that have seen a real panic are those that have seen money and credit panics. Now, the thing that was threatened last spring was a credit panic—do you realize that?—a panic because the legitimate borrower would find himself unable to borrow at any rate for his requirements.

Mr. BUSBY. I am not going to pursue this matter further, but it is all interesting to me.

Mr. GOLDSBOROUGH. Mr. Mitchell, I personally felt that the rediscount rates in the Federal reserve system ought to have been raised in the fall of 1927. It seemed to me that anybody could see as early as the fall of 1927 that this thing was coming. Of course, Mr. Young undertook to explain why the rates were not raised earlier last year, but I do not really remember what his explanation was at this time, as to why it was not done.

Mr. BEEDY. Failure to act with promptness, due to lack of courage.

Mr. GOLDSBOROUGH. I did not understand him to say that.

Mr. BEEDY. I do not know that he said that, but that was the general testimony.

Mr. GOLDSBOROUGH. I gather that the reason you felt it was proper to put that \$25,000,000 into the market when you did was in an effort to stimulate the courage of the people as a whole and make the liquidation more orderly than it would have been if everybody had simply gotten scared to death at the same time—is not that about what you had in mind?

Mr. MITCHELL. No. That particular incident has been over-emphasized.

Mr. GOLDSBOROUGH. I am sure of that.

Mr. MITCHELL. As a matter of fact, we loaned to the call-money market at that time, as previously and quite generally during that whole season, not from any desire to put out our money on call, but in order to stabilize and steady the situation. At that particular time we were not borrowing and had not been borrowing from the Federal reserve bank. There suddenly developed in New York a situation where there was no call money on the board, and absolutely insistent borrowers had to borrow money to fulfill their contracts of that day or fail and take the consequences.

Mr. GOLDSBOROUGH. And you mean that the consequences if they had failed would have been that somebody else would have failed and then somebody else, with an accumulation of failures?

Mr. MITCHELL. The only other way they could have met their contracts would have been to throw their securities on the market. Now, we did then what we had done before, but it has not come into public notice. We said:

We will not loan money at the going rate, but if there are honest borrowers—that is, borrowers who honestly must have it and are willing to pay an increasing rate—here is the money that we will put in to aid the situation over the day.

What money we put in that day caused us, I think, to borrow from the Federal reserve bank something like \$32,000,000, most of which was paid by the next day and all of which was paid by the second day.

To say that we used Federal reserve credit to maintain a great speculative market is incorrect. All we were after was to stabilize credit as far as we could, and also to see to it that the legitimate borrower could get his money at some rate or another.

To say that that stimulated speculation is also incorrect. I do not believe that any agency of the United States Government would have wanted to take on the responsibility of having brought about a panic through insisting that the ordinary recourse to the Government agency, the Federal reserve bank, be refused at that particular time for a comparatively small amount of money.

A newspaper man happened to come in to see me in my office as I was leaving that night and asked:

What about this? Are you not violating the Federal reserve dictum when you do this?

I said:

Why, see here; to my notion the Federal reserve bank was organized for the very purpose of seeing to it that the legitimate borrower could always get his money at some rate under proper circumstances, and if they do not accept that full responsibility, it remains with the banks, where it rested long before the Federal reserve system came in.

That is all that was said. It was not a formal statement, but it drifted into the papers, and there were headlines that we had loaned \$25,000,000 and great hullabaloo about it, and editorials and talk in Congress and whatnot.

Mr. BRAND. Was that loan made to your own customers?

Mr. MITCHELL. No. We put it right on the board.

Mr. BRAND. And let anybody have it who wanted to borrow the money?

Mr. MITCHELL. Anybody. Of course, that was on the loan board of the New York Stock Exchange.

Mr. LUCE. I would like to insert right at this point the fact that Mr. Mitchell is not the only man who suffers from headlines.

Mr. BEEDY. The papers must have headlines always.

Mr. MITCHELL. Yes; I have learned that.

Mr. BEEDY. I move that we extend a vote of thanks to Mr. Mitchell for his very interesting and instructive talk.

Mr. BUSBY. Is that usual?

Mr. BEEDY. And that we now adjourn. Whether it is usual or not, I move it.

Mr. LUCE. The chairman has requested me to ask you to furnish the committee with a list of stockholders owning over 500 shares.

Mr. MITCHELL. All right. Of course, you realize that that will be very voluminous, as our stock is a \$20 par stock, so that 500 shares are the equivalent of 100 shares ordinarily.

Mr. LUCE. I will ask Mr. Thompson to get in touch with the chairman and then communicate with you further on this matter.

The committee stands adjourned.

(Thereupon, at 2 o'clock, p. m., the committee adjourned.)

(In pursuance with an agreement reached by the committee that written statements be invited from persons unable to attend, and incorporated in these hearings, letters and statements have been received and are printed in full as follows:)

CHERAW, S. C., May 8, 1930.

HON. L. T. McFADDEN, *Chairman,*
Washington, D. C.

MY DEAR MAC: In reference to one of the gentlemen that I asked you to call in the bank hearings, I enclose letter and pamphlet from him which might be spread on the minutes of the hearings as a statement from Mr. Rhett who is one of the most prominent financiers in the South having been president of the United States Chamber of Commerce, and with a very wide experience in every kind of financial transaction.

Most sincerely yours,

W. F. STEVENSON.

PEOPLES STATE BANK OF SOUTH CAROLINA,
Charleston, S. C., April 29, 1930.

HON. W. F. STEVENSON,
Fifth District of South Carolina, Cheraw, S. C.

MY DEAR STEVENSON: Yours of the 25th instance received.

I was on my back in a hospital in Baltimore for five months last summer and fall and I have not yet quite recovered from the very serious operation I then underwent. My physician has not been willing for me to attend the annual meeting of the Chamber of Commerce of the United States held in Washington this week, and I hardly feel equal to the task of appearing before a congressional committee at this time.

The bank which myself and my associates have been endeavoring to develop in South Carolina is based upon the principle of having a large capital, surplus and stockholders liability behind the deposits, not only of the main office but of every one of its branches, just as the Canadian banks have, but we have also provided for local self-government for these branches by the stockholders of the bank residing in their respective communities.

We have been endeavoring to work out this system so as to throw the proper safeguards around it but it is growing so rapidly and so much of our time has been taken up with purchasing existing banks many of them the most conservative national banks in the State and the opening of new branches, that we have not perfected the details of the safeguards to be thrown around their operations to such an extent as would enable me to give in detail the precise plan under which we propose to continue these operations.

I am inclosing you herewith, however, a set of by-laws which sets forth the constitution under which we are working.

I do not know that there is anything that I can add to this that can be of any value at the present time. I can only say that the idea has taken such a hold upon the people of the State that the Peoples State Bank which started with a capital and surplus of \$600,000 and a deposit of \$3,500,000 and 10 branches on May 15, 1929, has grown in one year to a bank with a paid-up capital and surplus of \$2,400,000, with a deposit of approximately \$30,000,000, and some 35 branches.

I would much prefer waiting until the next session of Congress, when I can give you a more detailed account of the safeguards provided for the operation of such a system as I have outlined. It seems to be in line with the spirit of the American people and its Government.

My main objection to a branch bank system has been that it takes away the power of the local authorities to invest the funds of the community accumulated in deposits in the community itself and under the direction of its local government. We are endeavoring to cure what I consider to be that defect, but we realize that extraordinary safeguards must be provided to insure that investments shall be sound and sufficiently liquid.

The by-laws inclosed will reveal our plans to you as fully as I could state them before a committee at this time, and I hope that you will excuse me until I feel a little stronger and we have advanced a little further in the development of our plans.

Sincerely yours,

R. G. RHETT.

BY-LAWS OF THE PEOPLES STATE BANK OF SOUTH CAROLINA

[Main office, Charleston, S. C.]

It is proposed that the by-laws of the Peoples State Bank of South Carolina be amended at the annual meeting of stockholders, January 21, 1930, so that when amended they will read as follows:

ARTICLE I. STOCKHOLDERS

1. The annual meeting of the stockholders shall be held in the city of Columbia on the third Tuesday in January of each year, at the office of the corporation, unless a different place be designated by the board of directors and notice thereof mailed to each stockholder at least three days in advance.

2. Special meetings of stockholders may be called at any time by the chairman of the board of directors, by the president, by a majority of the board of directors, or by a majority of the stockholders. A written notice, stating the purpose of such special meetings, and the time and place they are to be held, shall be mailed each stockholder at the stockholder's last recorded address at least 10 days in advance of the meetings.

3. There shall be issued to each stockholder a certificate or certificates of stock in the corporation for shares owned. The certificates shall be signed by two officers of the corporation, one of whom shall be the president or a vice president, and the other the cashier or secretary. The seal of the corporation shall be impressed upon each certificate.

ARTICLE II. BOARD OF TRUSTEES

1. There shall be elected by the stockholders at each annual meeting an advisory board, which shall be known as the board of trustees.

2. The duties of the board of trustees shall be to receive reports from the board of directors, the executive committee, and the officers of the corporation, and to make to the board of directors or the executive committee, or the stockholders, as it may see fit, such recommendation with reference to the general policies or operations of the corporation as it may deem desirable. The board of trustees shall elect its chairman and secretary who shall perform the duties usually incident to such offices.

3. The board of trustees shall consist of 1 member from each district and not more than 10 members at large. The district members shall be nominated by the boards of managers of the banks of their respective districts. The members at large shall be nominated by the stockholders at the annual meeting. In the event of a new district being added between annual meetings, the board of trustees shall have the right to elect a member upon nomination by the district board of managers of such new districts.

4. Vacancies on the board of trustees occurring during the year shall be filled by the board of trustees; but in filling such vacancies district representation as hereinabove provided shall be observed.

5. Each member of the board of trustees in order to qualify must hold shares of the capital stock of the bank totaling a par value of \$1,000, of which shares totaling a par value of \$500 shall be and remain unpledged.

6. The board of trustees shall meet twice a year at the office of the corporation in the city of Columbia, on the second Tuesday in July and the third Tuesday in January, at 11 o'clock in the morning.

ARTICLE III. BOARD OF DIRECTORS

1. The board of directors of the corporation shall consist of not less than 11 nor more than 15 members. The stockholders at each annual meeting shall elect at least 11. In the event the stockholders shall elect less than 15 the duly elected directors may elect such additional members as may not make the total number exceed 15, and in the event of a vacancy occurring the board itself shall fill same. Members of the board of directors shall serve until the annual meeting succeeding their election and until their successors have been elected and shall qualify.

2. The board of directors shall hold regular meetings on the second Tuesday of each month at the office of the corporation in the city of Columbia at 11.30 o'clock in the morning, unless some other place is designated by the board itself of which due notice shall be given.

3. Special meetings of the board may be called by the chairman, by the president, or by a majority of the board at any time, and to meet at any place, provided three days' notice thereof be first given to each member of the board.

4. The board of directors shall be responsible for conducting the business of the corporation as provided by law.

5. The board of directors shall elect the officers of the corporation and fix their salaries.

6. The board of directors shall consider nominations by the resident stockholders for their boards of managers, the nominations of the board of managers for the offices and employees of the main bank and several district banks and confirm same where it deems proper to do so, except that the chairman of the board of directors and the president of the corporation shall be the chairman of the board of managers and president of the main bank.

7. The board of directors shall fix limits within which the management of the main and each district bank shall be permitted to make loans and it shall appoint a finance committee or finance committees to consider and act upon loans proposed by the main and district banks in excess of the amounts thus fixed for each.

8. The board of directors shall prescribe the districts within which the stockholders of the main and each district bank shall act as hereinafter prescribed.

9. In general, the board of directors shall make such rules and regulations for the operation of the main and district banks not inconsistent with these by-laws as it may see proper.

10. The board of directors are hereby vested with power to discharge or change in its discretion, any officer or employee of the corporation or of any of the main and district banks, provided such action be authorized by a two-thirds vote of those present at any regular or special meeting of the board of directors. And all officers and employees of the corporation and of the main and district banks accepting positions or employment shall be deemed to have done so under this provision which shall be a condition of their positions and employments. And when and if any such action be taken by the board of directors such officers and employees shall have no recourse against the corporation or any of the banks or officers thereof by reason of any such action.

11. Each member of the board of directors must qualify by holding shares of the capital stock of the bank totaling in par value \$1,000, of which shares totaling in par value \$500 shall be and remain unpledged.

12. The secretary of the corporation shall be the secretary of the board and shall keep its minutes and send out its notices.

13. The board shall have power to declare such dividends out of the earnings of the corporation as in its discretion it may deem proper.

ARTICLE IV. EXECUTIVE COMMITTEE

1. The board of directors shall elect an executive committee to consist of 5, 2 of whom shall be the chairman of the board of directors and the president of the corporation and the remaining 3 to be selected from the vice presidents resident in Charleston.

2. The main bank, each district bank, and each office shall make daily reports to the office of the executive committee on forms furnished by the executive committee.

3. The executive committee shall see that examinations of the main bank, the district banks, and offices are made as frequently as practicable, by a competent examining force which shall make reports of these examinations in duplicate, one copy going to the office of the executive committee and one copy to the bank examined.

4. The executive committee shall submit these reports to the board of directors together with such action as it may have taken, or such recommendation as it may make with respect thereto.

5. The expenses of officers of the corporation, of the executive office, and of the board of directors incurred in operating the corporation, together with the salaries of the general officers and the employees of the executive office shall be apportioned by the executive committee amongst the main and district banks, taking into consideration the allotted capital and deposits of each.

Expenses not connected with operation, but incident to looking into the advisability of opening or closing of branches or purchasing banks and all expenses incident to the organization or to enlargement of the capital shall be charged by the executive committee directly to the undivided profit account of the corporation.

6. Meetings of the executive committee shall be held at its offices in Charleston each day at 10.30 o'clock in the morning. The secretary of the corporation shall be the secretary of the executive committee and also its fiscal agent, charged with keeping the accounts and vouchers of expenses incurred; with the payment of these expenses, and with the collection of the funds with which to pay them from the various banks, or from the main bank where the charge is to be made against the undivided profit account.

7. The executive committee shall exercise the powers of the board of directors in the intervals between its meetings, subject to such limitations and restrictions as the board may impose.

ARTICLE V. GENERAL OFFICERS

1. The officers of the corporation shall be a chairman of the board of directors, a president, cashier, a secretary, and such vice chairmen of the board, vice presidents, and assistant cashiers or other officers as the board of directors may determine, all of whom shall be elected by the said board.

2. The chairman of the board shall be the general executive head of the corporation and is charged with such duties as are necessarily incident to such office.

3. The president shall be charged with the duty of assisting the chairman and also with the duty of taking up and reporting on expansion of the activities of the bank, opening branches or purchasing other banks for the corporation. In the absence of either the other shall discharge his duties.

4. The cashier shall be charged with such duties and responsibilities in connection with the corporation as may be designated in the by-laws and such as may from time to time be assigned him by the board of directors; and he also shall be charged with the duties and responsibilities of the cashier of the main bank which shall be assigned him by the board of managers of said main bank.

5. The secretary shall be charged with the duty of keeping the minutes of the meetings of the stockholders, board of directors, executive committee, and of sending out such notices as may be required by them. He shall also be the fiscal agent of the executive committee.

ARTICLE VI. BRANCHES

1. There shall be established branches of the corporation to be known as "district banks" located wherever deemed advisable by the board of directors. There shall also be "offices" for the taking in and paying out of deposits, located in like manner, and each attached to some district bank. Branches or offices may be discontinued or converted one into the other by the board of directors at its pleasure.

2. The board of directors shall each year allot, to each bank a certain portion of the capital and surplus of the corporation, in accordance with the law and also taking into consideration the average deposits of each bank. The board of directors shall have the power at any time to make changes in such allotments (not contrary to law) as the circumstances and interests of the corporation may require.

The foregoing provisions as to allotments, however, shall not in any manner limit or affect the obligation of the entire capital and surplus of the corporation to the depositors and creditors of the several banks and offices comprising the system of the Peoples State Bank of South Carolina.

The working capital thus allotted, together with the deposits, shall be used in the manner and to the extent such funds are customarily used in a well managed bank and as nearly as practicable, under this system as though the banks were separate banking institutions, subject, however, to the provisions of these by-laws and such rules and regulations as may be prescribed by the board of directors or the executive committee and to the law in such cases made and provided.

3. The board of directors shall prescribe the district in which a branch is to operate. Each district shall conform generally to the city or town in which it is located and such surrounding territory as the board of directors may see fit to designate.

ARTICLE VII. MANAGEMENT OF MAIN AND DISTRICT BANKS

1. Prior to each annual meeting of the stockholders of the corporation such stockholders of record as are resident in the district in which the main bank or any of the district banks are located shall meet upon reasonable notice given by the president of the corporation in the district where the main bank is located and by the executive vice presidents in charge of the districts in which are located the district banks and shall nominate by stock vote a board of managers for the ensuing year for their respective district banks. A majority in amount of the stock resident in the district shall be necessary to constitute a quorum, but any stockholder may be represented in such meeting by a written proxy. These nominations shall be sent to the board of directors of the corporation, who shall thereupon select from said nominations all or so many of the persons so nominated as it shall see fit. Those selected shall constitute the board of managers for the main bank and the district banks, respectively, of the current year.

2. Members of the board of managers of each bank must qualify in like manner as members of the board of directors of the corporation.

3. The board of managers of each bank shall nominate to the board of directors of the corporation and executive vice president, a district cashier, and such other officers and employees as they may respectively deem advisable for the bank in their respective districts, together with salaries recommended for each. All such nominations and salaries must be approved by the board of directors of the corporation, subject to the provisions of Article III, section 10.

4. The qualification of each executive vice president shall be the same as is required of the members of the board of directors.

5. No member of the board of managers shall be allowed to borrow over \$500 unless the loan is secured by actively marketable securities, or unless it is approved by the executive committee of the corporation.

ARTICLE VIII. MANAGERS' CONFERENCES

There shall be held at least once each year upon call of the executive committee (and at such other times as the managers conference or the executive committee shall determine) what shall be known as the managers' conference. At this conference there shall be invited to be present one representative from the main bank, and one from each district bank who shall be delegated by the board of managers of such bank, respectively, together with at least one or more members of the executive committee. The duty of this conference shall be the formulation of rules and regulations to be recommended to the board of directors for the internal management of the system. This conference shall also make any other suggestions with respect to operations that it may deem advisable. All such proposed rules and regulations and such suggestions shall be reported to the board of directors at its next regular meeting for such action thereon as that board may deem advisable. Such of said rules and regulations as may be approved, and adopted by the board of directors, shall be those under which the banks and offices shall be operated (unless otherwise provided in these by-laws) until further order of the board of directors.

ARTICLE IX. ADVISORY BOARD

1. All stockholders of the corporation, who are of age, not suffering from any disability making it impossible for them to render service, and expressing a willingness to serve, residing in the district where the main bank or any of the district banks are located and holding at least five shares of the capital stock of the corporation shall constitute what shall be known as an advisory board for the

main bank or district bank for that district, with the executive vice president in charge of such bank as its chairman. This advisory board shall meet at the call of the executive vice president of such bank at least twice during the year and shall take such steps, not contrary to law and the rules and regulations of this corporation, as it may think advisable, for the upbuilding of the business of the bank. The advisory board shall receive such compensation for this service as is hereinafter prescribed.

2. In order to stimulate local business and interest in the banks in the various districts there shall be paid to the said advisory board of the bank in each district, as compensation for their services (to be distributed amongst themselves as they may by majority vote determine), such portion of the profits as may be earned by the bank, in such district, under the rules herein prescribed, not exceeding, however, in any one year, 2½ per cent on the average par value holdings of the bona fide stockholders of record resident in such district for the current year; said average to be determined by multiplying such face holdings of each resident stockholder by the number of days during the year in which the stock has been held and then dividing the product by 365.

3. The rule determining what part, if any, of the net earnings is available as compensation for said advisory board shall be as follows: Deduct from the gross earnings the operating expenses, including the proportionate part of the expenses of the executive office; then deduct for estimated losses a reserve fund of three-fourths of 1 per cent of the average "receivables" of the bank for the year; then deduct 8 per cent on the allotted capital and surplus, and one-third of the remainder, not to exceed the 2½ per cent limitation above described, shall be paid to the advisory board. The board of directors shall determine the rules for the appraisal of the bonds and investment securities held by the banks to be utilized in calculating their net earnings. All profit or loss on actual sales of bonds or investment securities during the current year shall go into the operations of the year. All losses incurred on "receivables" shall be first charged against the assumed "reserve fund" above referred to, until that is exhausted, and then against the profits for the current year.

ARTICLE X. LOANS

1. All loans out of the funds or resources of the main bank and of each district bank shall be initiated by the managements of the said main bank or of each district bank, respectively, and may be made outright by said managements, within such limitations as shall be prescribed by the board of directors of the corporation. All loans in excess of amounts so fixed by the board of directors must be sent for authorization to the finance committee designated by the board of directors.

Zones may be established by the board of directors with finance committees for each zone, but no finance committee shall consist of less than five nor more than seven and all finance committees shall be appointed by the board of directors and be charged with the duty of passing upon all loans transmitted to them under rules established by said board.

2. All applications for loans in excess of the limitation fixed for local managements shall be made over the signatures of the applicants and shall state the amount desired, the time the loan is to run, and shall describe the security offered. They shall also be accompanied in each instance by a recent statement, signed by the applicant, or in case of a corporation by its duly authorized officer, showing the assets and liabilities of the applicant. It shall also be accompanied by a certificate of approval of the local board of the bank where the application or the loan originates.

3. All such applications shall be in duplicate. One copy shall be sent to the executive office; and simultaneously the other shall be sent to the finance committee; and the executive committee shall have the power of requiring the application sent to it for confirmation in the event it shall determine such course to be advisable.

ARTICLE XI. INVESTMENTS

1. All investments outside of loans shall be initiated by the managements of the local bank.

2. If the proposed investment is real estate it must first receive the approval of the board of directors of the corporation. If a proposed investment shall consist of investment securities it shall be submitted to the department of investments and securities of the corporation and handled by that department. The

department of investments and securities shall be established in accordance with such rules and regulations as the board of directors shall prescribe.

ARTICLE XII. TRUST DEPARTMENT

There shall be established a department of the corporation which shall be known as the trust department which shall be in each bank of the system of the corporation, under the supervision of a vice president of the corporation who shall also be known as the trust officer. The duties and responsibilities of the trust officer shall be those prescribed by law and such rules and requirements as shall be prescribed by the board of directors of the corporation not inconsistent with law and the by-laws of the corporation.

All assets held by the corporation in a fiduciary capacity shall be under the supervision and control of the trust department and shall be segregated from the general assets of the corporation. A separate set of books and records shall be kept of all of such assets which shall show in proper detail all transactions engaged in by the corporation in its capacity as trustee.

All sums of money deposited or held in trust by the corporation awaiting investment or other disposition, shall be carried in a separate account upon the aforesaid records and shall not be used by the corporation in the conduct of its business, unless the corporation shall first set aside in the trust department as security therefor United States bonds, Federal land bank bonds, municipal bonds, or notes or other safe investment bonds having an active market. The owners of all such funds held in trust for investment or other disposition are hereby given and shall have a lien on such securities so set apart for the protection of such funds, which lien shall be an additional security to that which the beneficiaries may have under their claim against the corporation.

The trust officer and/or the assistant trust officer shall have the custody of all securities held by this department, but in no case shall the trust officer or the assistant trust officer enter the trust department, where such securities are held, without being accompanied by one or more of the officers of the bank in which the trust compartments are located, who shall be designated by name for that purpose by the board of managers of said bank. No investment of funds of any trust estate shall be made by the trust officer, except by the authority of the executive committee, over their signatures, and with the approval of the board of directors.

ARTICLE XIII. TRANSFERS AND CONVEYANCES OF REAL ESTATE

All transfers and conveyances of real estate shall be made by the corporation under its seal, in accordance with the orders of the board of directors, and shall be signed by the president, or a vice president, and the cashier or secretary. Mortgages of real estate, however, may be assigned or satisfied by the joint signatures of the executive vice president and the district cashier of the bank to which any such mortgage shall have been given as security.

ARTICLE XIV. AMENDMENTS

These by-laws may be altered or amended—

First. By a majority vote of the stockholders at any regular or special meeting where notice of the proposed alteration or change is mailed to each stockholder at the last address known to the corporation not less than 10 days in advance of the meeting.

Second. By the board of directors, as prescribed by the laws of the State; provided, however, that 10 days' notice of any proposed change shall be mailed each director and that at least two-thirds of the entire board shall concur in the amendment.

ARTICLE XV. SEAL

The seal of the corporation shall be the impression upon wax or paper of the words "Peoples State Bank of South Carolina," in a circle, with the word "seal" in the center.

FEDERAL RESERVE BOARD,
Washington, June 27, 1930.

HON. L. T. MCFADDEN,
*Chairman Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR MR. MCFADDEN: I am inclosing statement for incorporation in the series of hearings which you have been so ably conducting, in accordance with the sug-

gestion in your letter of June 14. I have rewritten the first part of the address that I delivered at Poland Spring, Me., and have shortened the whole thing so that it now makes only 11 pages instead of 16.

Yours very truly,

EDMUND PLATT.

BRANCH BANKING BY CONSOLIDATIONS OF COUNTRY BANKS

(Statement by Edmund Platt, Vice Governor Federal Reserve Board)

For a number of years I have been collecting information with relation to branch banking—its history, particularly in our own country; its safety by comparison with so-called unit banking; and its success in the rendering of service to the people. I found at once that there was very strong opposition to branch banking among bankers, though business men who had transacted business with branch banks only occasionally had any complaints to make. Some of the opponents of branch banking went so far as to declare it un-American, unpatriotic, and a breeder of every kind of monopoly—but a little delving into the early history in our own country brought out the fact that branch banking was formerly generally recognized as the most natural way of extending banking accommodation to small communities, and to newly established and growing communities. I found, in fact, that some of the early State charters, in the days when banks were chartered by special legislative acts, required the banks to establish branches. I found also that branch banking was abandoned first in the East, in the financial districts, and continued in many sections of the West and South until the establishment of the national banking system after the Civil War. In fact I found that a few State banks continued their branches long after the Civil War, some of them being still in existence.

The so-called unit banking system originated in the State of New York with the passage of the "free banking act" of 1838, and this act with its amendments was in large measure copied into the Federal Statute books and became the national banking act of 1863-64. Without doing very much violence to a much abused expression it might be said that unit banking, involving correspondence banking, is of Wall Street origin, and it certainly has served the financial centers well, and has resulted in the concentration of stupendous sums of money in the great banks of these centers, particularly in New York.

An interesting study of Money Rates and Money Markets in the United States has recently been published by Winfield W. Riefler (Harper Bros.). On page 107 I find the statement: "The industrial and banking structure is such, therefore, as to divert from smaller banking communities to larger ones a certain portion of the loanable funds, and these are returned only through indirect processes such as out-of-town deposits and interbank loans at high money rates." Interest rates are lowest where the loaning funds are concentrated and banking profits are also greatest in the financial centers chiefly because of the greater volume of business. Mr. Riefler in the sentence quoted above is referring particularly to the diversion of loanable funds through correspondence banking—every small bank finding it necessary to carry balances in large banks in the large cities. But that isn't by any means all of the diversion of loanable funds from the small to the great cities. In almost every small city and in many of the rather large cities there are large industries and people of wealth who find the local banking facilities too small for their purposes, and therefore carry accounts in New York or Chicago. It would be easy in many of these smaller communities to create larger banks capable of taking care of much of this business if mergers of country banks were permitted. A curious feature of the present Federal law is that you can merge two or more banks within the limits of the same county—but if you do you must close all the banking offices but one. It seems odd that our deviator to "unit" banking should be carried quite that far. A bank might still be called a "unit," one would think—and would in fact be a unit bank essentially—even though it extended its services to the people of the county or a group of near-by counties through several localities.

Although unit banking was the product of the East, and has been sedulously fostered by the big banks seeking correspondence accounts in the big cities, the craze for "units" was carried much further in the West than in the East. In the 1880's certain Middle Western States decided that every little hamlet should have a banklet of its own, and began to charter banks with a capital as small as \$10,000 and even \$5,000. Some of them were located in growing towns and grew into larger and successful institutions, but a great many of them

went down in the panic of 1893—after which we find two comptrollers in succession recommending branch banking, Mr. Eckles, and Mr. Charles G. Dawes. The latter recommended specifically that branches be authorized in places of 2,000 inhabitants or less. If this recommendation had been heeded it would have strengthened country banking very materially. Instead of heeding it Congress decided to compete with the States by chartering smaller national banks, and in 1900 lowered the limit of capital from \$50,000 to \$25,000—thus making things worse instead of better.

It does not seem to be clearly understood that the unit banking system, carried to such an extreme as we have carried it in this country, forces banking business into the big cities and particularly into New York that could and should be done elsewhere, and also fosters speculation by forcing money into Wall Street to be loaned to brokers that might frequently be loaned, if not at home, at least to industries in the same State or in the same general neighborhood. Some economists have recognized this fact, but I think it was never forcefully presented until Comptroller Pole's recent report and addresses, in which he brought out the fact that to permit branch banking within "trade areas" would "decentralize credit" by creating banking institutions large enough to handle much of the larger business at home. Ample proof of these statements is at hand. First, there is the testimony of the witnesses who have appeared before this committee. Every one of the men representing the group banking corporations stated that they were able through their larger organizations to keep business at home that had previously gone to New York or Chicago, and some of them cited specific instances. I can add some convincing testimony from a Southern State.

Early in 1926 there was formed in South Carolina a combination of three banks under the auspices of the Bank of Charleston, which after the necessary consolidations became the South Carolina National Bank. Interests connected with the Bank of Charleston, of which Mr. R. S. Small was the president, acquired control of the Norwood National Bank of Greenville in the Piedmont section and the Carolina National Bank in Columbia, in the center of the State. These three banks became State banks for a brief period and were consolidated under State laws, the Greenville bank and the Columbia bank becoming branches of the bank in Charleston. They were then converted into a national bank with branches under the provisions of the act of 1865 (a wise provision of law unhappily repealed by the McFadden Act in 1927). In a circular letter issued to the shareholders of the Bank of Charleston, N. B. A., in January, 1926, Mr. Small stated that it was planned to consolidate these three banks into one corporation, in order, first, to be able to compete with the larger institutions in the North and East for the best class of business in the State, and, secondly, he said:

"The demand for money in one locality, such as this, is seasonal, which means that we have a big demand at one season and a small demand at another, resulting in our having to borrow at one season and to lend on call in New York at another, both of which processes are expensive. Through operating in Greenville we diversify our loans by having a number of them dependent upon an entirely different set of conditions, which insures a diversity, not otherwise obtainable, and in addition, the seasonal demand in Greenville for funds is exactly the opposite from Charleston, with a result that it will avoid, to a large extent, the necessity of borrowing at one season and lending on call in New York at another, thus giving us greater diversity and a more uniform demand."

Here is a distinct recognition of the fact that money was loaned on call in New York either from Greenville or from Charleston which could have been loaned in the State if the institutions in both sections of the State could work together. Greenville is a manufacturing town and the peak of demands in that section would naturally come at a different time from the peak of demands at Charleston on the seacoast. I understand that the expectations outlined in this circular letter in 1926 have since been realized and that the institution is successful. That similar conditions obtain in many other States and sections and particularly in the Middle West can not be doubted. Almost all the witnesses, including some who came to oppose branch banking, admitted under questioning that there were some places where branches would serve better than small separate corporations. Mr. A. J. Viegel, banking superintendent of the State of Minnesota, in a recent statement, mentioned 154 places in that State which previously had supported banks where there are now no banking accommodations whatever, principally because of failures. About one-half of them he said should have some kind of banking service, but he said he could see no way of safely serving them except through branches.

The system of group banking resulting from an exchange of bank stock for holding company stock is new and is certainly different from what has been known for many years as "chain banking" where one man or a group of men have purchased for cash the control of a number of banks. As conducted in the Minneapolis-St. Paul district, in the Detroit district and by the Marine Midland group of Buffalo, the groups bear a very strong resemblance to branch banking. The men representing them all declared that no single bank in the system could or would be allowed to fail. They declared also that whenever any individual or industry in any community had need for loans larger than the loaning limit of the local group bank of the community such loans were taken care of within the group. I agree with Comptroller Pole that this development of group banking should not be checked by law unless something better can be substituted for it. We pass too many restrictive laws. What we want now is something constructive.

This kind of group banking not only resembles branch banking, but probably would have been called branch banking in the days of the old State banks before the Civil War. One of the model branch banking organizations of that period was the Bank of Indiana, of which Hugh McCulloch who became the first Comptroller of the Currency was the president. If you look into the history and structure of the old Bank of Indiana you will find that its branches were pretty nearly independent. There was a central board of directors, with certain supervisory and directory powers, while the branches were independently organized banks with separate stock. The Bank of Ohio was also a group of pretty nearly independent banks bound together under a modification of the New York safety fund principle. In those days, the emphasis was on giving security to note issues, but the principles are the same when applied to security for deposits. Deposit banking was something which grew up in the cities and was not much understood for a long time outside of the cities. The notion that depositors did not need any special protection persisted for many years after the national banking act was passed.

The resemblance of the group banks of to-day to the branch banks of the days before the Civil War suggests that with proper legal recognition and direction they might be developed into branch banking institutions somewhat of the old type—the branches retaining a considerable amount of independence, but being jointly responsible for the debts of every branch in the group as was the case in the old Bank of Indiana, and each group supervised and in a measure controlled by a central board of directors, under governmental supervision. Possibly such a system of branch banking—a sort of compromise between group and branch banking—would meet the chief objection of many of the ardent opponents of branch banking. I mention this merely as a possibility, and without much confidence that such systems would take care of the very small towns where most of the banking failures occur.

It should serve to bring to mind that branch banking need not necessarily be of one pattern. Branch banking can be organized so as to give the branches a certain amount of independence, and can be organized without any "parent bank"—simply a group of banks in different places operating under one corporation. The head office, where the directors meet and where the corporation books are kept, need not be a bank. I am not quite sure that there must be a "head office." At any rate, one of the institutions in the South operating two banking offices—banks recently consolidated—maintained in recent letters to the Federal Reserve Board that there was no "parent bank" involved, and no "head office." Therefore, they thought they should be allowed to remain in the Federal reserve system. I thought so myself, but our counsel could not be convinced.

"Whether you like it or not," said Mr. Decker, of Minneapolis, in his recent statement to the committee, "size is fundamental in many lines of business. It certainly is in the banking business." Now, keeping always in mind the main purpose of making our country banks large enough to take care of a larger share of the local business, the best of which now goes to New York, and large enough and with diversification enough to be able to stand up in adverse times, what limits should be set, with relation to capital and to extent or number of branches? Mr. Henry Dawes, former comptroller, represented the extreme position of opposition to branches, but admits the necessity of larger banks. He cites the fact that 88 per cent of the failures of the last nine years have been banks with a capital less than \$100,000, and recommends that no banks be chartered in the future with a capital less than \$100,000.

He would not permit smaller country banks to consolidate so as to obtain the requisite capital, if consolidation involved the maintenance of banking offices

in different places. His idea seemed to be that unless a town or community is large enough to maintain an independent bank with a capital of \$100,000 it should depend on the nearest large town—i. e., it should be deprived of convenient banking service. Mr. Dawes took the ground apparently that we must either have nation-wide branch banking or none at all outside of cities. "It seems to me," he said, "there is no room for compromise on this subject and that a determination should be reached as to whether the United States wishes to embrace a national system of branch banking or to preserve its coordinated independent units. It can not do both."

I disagree wholly with this dogmatic position. There was more branch banking in the United States 100 years ago, in proportion to population and banking resources, than there is to-day, and there always has been some branch banking in the United States. In fact there always has been some branch banking in the national banking system, and it can be shown that not quite all of it came in through conversion of State banks. There is no clear evidence that the Congresses of Civil War days in enacting the national banking act had any intention of prohibiting branch banking, and the comptroller's office did not finally pass upon the question until 1902. In 1911 Attorney General Wickersham delivered an opinion adverse to branches in the case of the Lowry National Bank of Atlanta, an opinion later much modified by Attorney General Daugherty, who October 3, 1923, found in favor of additional offices within city limits. The matter was never definitely decided by the Supreme Court, the St. Louis case in 1924 having turned on enforcement of a State law. Now and then national banks opened outside offices and sometimes they withstood the comptroller's criticisms for a considerable period.

The Citizens National Bank of Newport, N. H., was given a certificate by the Comptroller on March 27 last for the operation of a branch at Warner, in an adjoining county, on the ground that the branch had been operated for the past 25 years. They are today (April 8 figures) 273 banks in the United States maintaining 570 branches outside so-called city limits without counting California. Twelve of them are national banks maintaining 28 branches. North Carolina heads the list with 34 banks maintaining 66 outside branches. California has two less banks (32) with outside branches, but the number of branches is much greater, 547, of which 313 are branches of national banks. Of the banks maintaining outside branches 52 are in New England, 22 of them in Maine, the Maine banks maintaining 57 branches. The Maine law, permitting branches in the county of the parent bank and any adjoining county seems to me excellent, and the limit it provides would be sufficient, I think in any Eastern State. In Western States where there is much less diversification of industries the limit should doubtless be much wider, perhaps in some districts comprising more than one state.

Branch banking can be limited in any way desired—by territory to be covered, by number of branches to be allowed each bank, or by the size of the places in which branches may be organized. As four-fifths of all bank failures have occurred in places of less than 2,500 inhabitants the law might provide that no more unit banks should be incorporated in places of less size, branches to be authorized instead. There is no reason why we should decide now with relation to what kind of banking may seem desirable to the people 50 or 100 years from now, and no reason why we should not apply a desirable and well proven remedy within limits now because of fear that some future generation may decide to enlarge the limits.

Banks have a common-law right to establish branches. This was generally recognized in the early days of our Nation's history. In many States they have lost this right through restrictive legislation, some of it not originally intended to prohibit branches. The obvious thing to do is to repeal some of the restrictions and allow some freedom of natural development. I do not believe that there would be any rapid or dangerous development if the establishment of branches were permitted within trade areas as the comptroller suggests. I do not believe that any comptroller would permit a dangerous or a very rapid development, and the history of branch banking where long authorized by State laws seems to indicate (with the single exception of California) that development would proceed slowly anyway. Branch banking is really a country-bank proposition. New York and Chicago bankers are generally opposed to it (witness the testimony of Mr. George W. Davison of the Central-Hanover), having learned many years ago that correspondent banking serves them best. As long as the banking units out in the States can be kept comparatively small the biggest and best business must come to the big cities, and the country banks themselves through their correspondent accounts must furnish a large part of the funds with which this

business is taken care of. The present system suits Wall Street bankers exactly. They do business throughout the United States without the expense of maintaining branches.

I suggest as the first amendments necessary to remedy the present disgraceful situation with relation to bank failures that National banks be given the same privileges with relation to branches that State banks have, and second that in all States national banks should be permitted to establish branches through consolidations in trade areas, which might well start with the limits of the present Maine law, with discretion to the comptroller for extension where necessary in order to secure the diversification essential to safety.

THE NEW AMERICAN BANK OF OSHKOSH,
Oshkosh, Wis., July 3, 1930.

L. T. McFADDEN,
Chairman, Washington, D. C.

HONORABLE SIR: I am inclosing my brief of unit versus branch, chain, group banking. I thank you for the opportunity you so kindly gave me to state in my poor way, what truths there are on the side of unit banking, and I hope you will bear with me and in patience read my earnest defense of the best banking system ever devised under the sun.

Respectfully,

T. R. FRENTZ, *Cashier.*

INDEPENDENT OR BRANCH BANKS

I am only a humble country banker from the little city of Oshkosh, of 40,000 inhabitants, in the great State of Wisconsin, and I appear before your great body of men with trepidation, and fully conscious of my lack of oratorical abilities, and only the spirit of placing the much abused unit banks in a more favorable light amongst you fair-minded men, urges me onward to do my little all to fairly and squarely lay their case before you.

I had not the slightest intention of boring you gentlemen with my urban point of view, but as I carefully read the testimony and arguments made by man after man and learned that the great national-banking system had broken down and that State banks were far inferior to national banks, I wondered how far down in the scale of financial houses the baser State banks really were and the spirit moved me to arise and in my lowly way try to unpaint the somber hues that have been daubed upon the canvas. I was amazed to learn that branch banks never failed in Canada, and the losses under branch banking were practically nil! And when the statement was made that the Canadian branch-banking system was far superior to our independent banks, I wondered by what authority such an assertion was backed up by. And then I read once more the article published in the Toronto Star in 1912, *Monster Banking Monopoly a Leech at Canada's Throat, Killing Local Industry, Depopulating Rural Districts, Centralization of Almost Entire Financial Power of Dominion in the Hands of a Few Capitalists, Has Resulted From Our Much-Vaunted Banking System—Almost Total Extermination of Local Banks.*

Under these startling headlines the article continues—"while large capital insures slow, steady transmission of deposits to 'branches' for control, and use of head offices in smart, alien centers, local credit based on local savings is transferred to parasites on whom rests neither responsibility, object, nor desire to exercise banking functions in support of local enterprises. With such credit basis lost, not only does the collapse or absorption of local bank institutions become inevitable, but local aspirations and confidence which had sustained local industry, are wiped out or made dependent on the will and nod of competitive enterprises. So secretly, so gradually, does this sequestration of savings proceed, so insidiously are local enterprises undermined, that planting of a 'branch' to suck out local earnings, to extirpation of even the last local industry or institution is embraced by 'slow-going' people with the same artless innocence as a 3-year child fondles a viper. To this accursed system of concentration of credit and destruction of local industry, the Dominion of Canada stands indebted for a contracted population of 7,000,000 in place of 25,000,000 rightfully due it under decentralized systems of banks designed to sustain, to breathe the breath of economic life through the remotest, as well as the most insulated of its parts."

And yet we are told that branch banking in Canada is far superior to our unit banks! It is to laugh!

We are further informed that branch banks will not drive out the independent banks, yet not one statistic is quoted from any country under the sun to support this assertion. Let us take England for example. In that country there are five banks with nearly eight thousand branches, and they have put out of business practically every unit bank in the Kingdom.

In Germany and France 10 banks dominate the whole banking power of those two countries.

In Canada there are less than 15 "parent banks" with over 4,000 branches that rule the finances of the Dominion.

As we read further we are startled to learn that branch-banking is much safer than unit banking. Again one is lead to marvel why no statistics are quoted to support this rather daring assertion. There are many statistics extant that might have been incorporated, but, I fear me, not to support this bare statement. Inasmuch as these tables will throw the spot-light on "greater safety" let me quote you a few.

A. J. Frame has compiled some extremely interesting tables on this subject. Listen carefully.

"Statistics clearly show that failures and losses to depositors in Canada, compared with our national-banking system, exceed ours several times over, and her banking power is less than little Massachusetts alone.

"In 1866, when Overend, Gurney & Co. failed for \$50,000,000, the bank failures in Great Britain aggregated the stupendous sum of \$250,000,000.

"In 1878, 3 banks in Scotland with some 200 branches failed for \$100,000,000, with a deficit in assets about equal to the total losses to all the depositors of all the national banks of the United States since 1863. Our banking power averaged one hundred times these three banks.

"In 1893, out of 28 banks in Australia with 1,700 branches, 13 of them, with 800 or 900 branches, failed in six months for \$450,000,000. Her banking power approximated one-sixth of ours."

Besides, there were many branch-banking failures in Japan, India, Denmark, and Germany.

Now compare these stupendous losses with all the losses in all the national banks in the United States from 1863 to 1901. For this period of 38 years, the total losses were less than \$100,000,000. Also remember that the population of our country averaged nearly 100,000,000 people, and that meant a loss of \$1 per inhabitant for 38 years. Take the \$450,000,000 losses in Australia in six months, and remember that Australia's population was less than 7,000,000 and tell me again that branch banking is safer than unit banking.

Touching upon the assertion that "an independent unit system such as ours is less able to care for a general situation than a branch-banking system," I will again quote from the highly touted Canadian branch-banking world.

The American Banker's Association Journal, under date of November, 1929, published several letters from the Weyburn Security of Canada to their branch managers, and I will quote from only three of them. The first is dated January, 1918, and reads as follows: "It has been decided that it is to the advantage of the institution, and also it will be a great assistance to the managers, if, until further notice, all applications for loans exceeding \$300 be submitted to the directors through the head office for their approval."

Compare this with the statement made to your committee that "\$2,500 is minimum limit that they have ever placed on a manager."

The letter dated July 5, 1918, says: "After taking everything into consideration, it has been decided that the wisest thing to do is to ask the managers not to make any more loans, except very small ones, say from \$50 to \$75, without first sending the application to the head office."

The last letter I quote from says under date of July 10, 1918: "I realize that a great many of the farmers do need \$50 to \$75 to buy what coal they would stock at this time of the year, and it is not expected that you loan even this amount unless they are entitled to it without question. Unless we get more rains, the condition as to crop situation is not bright, and although it is disagreeable to refuse people credit, which ordinarily we should be glad to grant, still the good of the community is best served by keeping people from borrowing money under such conditions. It is surprising how little money a man can get along with when he has to."

In the light of these letters would you lend much credence to the statement that branch-banks are more able to care for a general situation than unit banks? Can you imagine an independent bank saying to a farmer that he could not have \$50 to buy coal with to keep him from freezing?

Now as to taxes branch banks would pay in such localities in which they have a branch, I would respectfully call your attention to the fact that branches have no capital and consequently would pay no taxes at all except on their furniture and fixtures—a mere nothing. If there were not other banks in my city than branches, the city of Oshkosh would lose over \$50,000 in taxes. The city of Denver, over a million dollars. Figure for yourselves how much that would amount to in 50 years. Who would have to pay these taxes in lieu of the banks? Why, God's patient poor of course!

And who wants branch banking? Has a single one of you gentlemen ever received a single request for branch banking from a single one of your constituents? I venture to answer "no" for each and every one of you. Am I wrong?

Then who is behind this clamorous call for branch banking? Oh, a few greedy bankers who would reap where they have never sown. A mere handful of ambitious men who would grab and absolutely control all the money in our country. They tried it 35 years ago, and are attempting to do it now. They use that fact that nearly 6,000 banks have failed in the last 10 years, and with patriotic fervor cry the poor depositors must be protected. They tearfully admit that this can only be done through that entirely new plan of banking—branch banking.

What the actual losses were in these all too many bank failures during the last 10 years, no one seems to know, for the experts themselves seem to disagree by a very wide margin as to the total. At any rate, they were not very staggering for even the most ardent advocates of branch-banking have to admit that they were not over 20 cents on the dollar.

And what was the cause of the numerous failures? Different minds have different ideas, and many are firmly convinced it was entirely due to the deflation operations of the Federal reserve banks. Personally, I can not agree to this viewpoint. I do contend that the Federal reserve banks were one of the very main causes of these failures, but not because they furnished these unfortunate banks with too little money, but entirely too much. I further maintain that entirely too many banks were organized, and that it was nothing short of ridiculous for a little village of 300 inhabitants having three and four banks. It is almost impossible for one bank to exist in such a small hamlet, and it was out of the question for three or four to live on a legitimate banking business. Then how did they subsist even the short time they did?

Listen. I will give you the history of a bank in Montana and that is the whole story of, practically, all of these failed banks. The capital of this bank was \$15,000, no surplus, less than \$2,000 undivided profits, and \$80,000 in deposits. Naturally you will all say that they could hardly exist under these conditions, yet twice they paid dividends of 50 per cent. Sounds absolutely preposterous, does it not? Still it was done. How, do you ask? Oh, it was all extremely easy. They charged all borrowers 12 per cent interest, and rediscounted the paper at 5 per cent, thus making 7 per cent net on all loans, and that too without having a dollar invested in such loans over night. Of course, the more rediscounts they had, the more money they made. And how many rediscounts did this Montana bank with its \$15,000 of capital have? Oh, a mere \$232,000. You can hardly believe that? Neither could I, yet the president of the bank told me so with his own lips. Any wonder they failed? Anything marvelous about the fact that when a farmer came into one of these banks to borrow \$200 to buy a horse, that the president should urge him to buy a tractor instead, for \$1,200? On \$200 he only made \$14, while on \$1,200 he profited \$84.

Now, what happened when these loans came due? Practically none of these farmers could pay, and as note after note matured, the farmer, like the historical Arab, folded his tent, and quietly stole away. And the bank? How could they meet \$232,000 of rediscounts? They could not, and that is why they failed.

It is a matter of history that many of the farmers that abandoned their farms, left behind them from \$2,000 to \$12,000 of power machinery. Had there not been such an unlimited amount of easy money forced upon them, and had they, perchance, plowed with a horse and a cow, they might still own their farms.

In my own State there have also been entirely too many bank failures, and too much money was also here, the main contributing cause. Not, however, too many rediscounts, but too many deposits. How, perhaps you may ask in deep perplexity, can too much money on deposit wreck a bank? It is quite easy if you will only give it a little sober thought.

A little country bank is started, and for years the deposits are just about enough so that all local demands for loans are nicely taken care of. Soon the deposits grow larger and larger, and there are not enough home demands to any longer absorb these funds, and an outlet somewhere must be found. Now, along

comes a silver-tongued bond salesman, who has an array of wonderful gold bonds as safe as the Rock of Ages, and which will net the handsome returns of 7 per cent. Just exactly the outlet the bank was looking for. What chance had the feeble objections of the country banker, whose knowledge of bonds was extremely limited, against the persuasive eloquence of this city chap? Of course, he fell, and the downfall of the bank was on its first stages. It needs no Solomon to continue the sad story to its inevitable ending.

And that is the story of practically all the bank failures in my Wisconsin. What can be done to put an end to these failures that cause such widespread ruin in their wakes? Not very much. The weak sisters that are yet hanging hopelessly on, must, in my humble opinion, go the way of all human flesh, and when the deplorable, but absolutely inevitable, weeding out has run its course, the solid, safe, strong unit banks will once more fulfill their destinies.

Would branch banking be a better system? You have already heard of the tremendous losses sustained under that antiquated system, and one more delve into the world's history of banking will not be amiss, considering the supreme necessity of a stable banking system.

Five hundred years before America was discovered England, France, Spain, Holland, Denmark, Persia, and Egypt were powerful, rich, and wonderful countries. In all of them branch-banking had full sway.

The history of the independent national banking system starts in the United States of America in 1863, and in its 67 years of existence it has carried our country so far ahead of all lands under the sun that none can compare with it in greatness or riches, and that system, the greatest, the best, the safest that ever was devised by the ingenuity of man is now being decried as having broken down.

In closing, I wish to say a word or two about the abuse now being heaped upon the poor country banker. Many years ago the greatest comic paper ever published in the world, Puck, had a cartoon about the American soldier during the Spanish-American War in Cuba. He was depicted as wading through the swamps of Cuba, knee-deep in water, mud, and slime, a million gnats swarmed around his head, a broiling sun mercilessly beat down upon his crown, great drops of sweat were dropping from his overheated head, a 90-pound pack was strapped to his aching back, a rifle was gripped in his arms, bullets from the foe in front zipped, and zoomed, and whistled all around him, and behind his stooped back, the sensational papers of his beloved country were pouring an unending blast of vituperation at the efforts of the American soldier. Beneath this striking cartoon were printed the words "How would you like to be an American soldier?"

Now, I ask you, how would you like to be a country banker? Years ago Mr. Mueller started his little country bank at Mueller's Corner. Slowly but surely his little bank grew, and in course of time by indefatigable efforts, and untiring devotion, his bank did show very fair earnings, was a credit to its village, and Mr. Mueller was respected, honored, and esteemed. Now one sad day for Mr. Mueller, the Federal reserve bank was grafted unto the financial world, and the first thing they did to this little bank that all the villagers were so proud of, was to arbitrarily take away his exchange. Then along comes the Federal land bank, and they take away his farm mortgages. Scarcely has he recovered a part of his wind, when the city insurance men, in fleet automobiles rolling along the cement roads the farmers built with money out of their pockets and they grab most of his insurance. Then the chain store drives out of business his best customer, the country general store. As if these locusts were not enough to make life scarcely bearable, it began to be rumored all over the village that Mueller's bank was losing its grip, and deposits began to fade away. Result? Mueller's bank failed, Mueller lost his money, his job, and all of his friends. To make his life still more burdensome, self-appointed critics cried out to the world at large that all country bankers were unscientific, unfit, incapable, and should never have been allowed to start a bank. I will propound this query to all fair minded men: Could Alexander Hamilton, George Reynolds, Charles E. Mitchell, A. W. Wiggins, or William Woodward with all their science, with all their skill, with all their ability have done any better than poor Mueller? Is it not ridiculous to say that the best banker in the largest city in all the world would have succeeded at Mueller's Corner any better than Mueller did?

Beware the branch-banks. May it never be said of you that your vote helped to fasten this merciless octopus upon the land of your fathers. With a branch in ever city of the Union, they will absorb the money of the entire country into their greedy paws, and can you faintly picture to yourselves the tremendous

power this Frankenstein will have? It will make or unmake all Presidents, all Congressmen, all Senators, all judges, all governors, all mayors. It will dictate all tariffs, all taxes, all laws. None can become great without its sanction, and it will chain to its golden chariots all men, all women, all children, just as did the Romans in days of old. Men will no longer be free, for he who holds in his claws all the money in the world, enslaves the nations of all the world.

THE FIRST-MECHANICS NATIONAL BANK OF TRENTON,
Trenton, N. J., July 7, 1930.

Hon. L. T. McFADDEN,
Chairman Committee on Banking and Currency,
Washington, D. C.

MY DEAR MR. CHAIRMAN: In accordance with our conversation and due to the difficulty of appearing before your committee in accordance with your invitation, I take the liberty of writing you upon the subject of unit banking as opposed to the system of branch and chain banking. This subject is far-reaching and has collateral connections involving a movement that tends toward the extinction of the middle class just as chain stores are driving out the local merchants and reducing our small cities and towns to mere tributaries of a metropolitan center, and destroying the individualism of our local community life. So far-reaching is its relation to this subject that one can only touch the high spots in a letter.

If, in addition to the general trend of centralization of industrial, commercial, and business life, we had a chain or branch banking system, the last vestige of local independence would be gone and the individual independence that has made America great would gradually be lost in the domination of centralized power. It is the individual and not the thing that we are most interested in in America, and the development of the individual is a far greater asset to our country than the bigness of enterprises. When you take from a community its independent merchants and manufacturers and business men and make them the mere agents for metropolitan centers, you have robbed that community of its self-thinking, self-acting, and self-progressive asset. When you have put the independent banker in the same class and torn from him his shoulder straps, you have deprived the community of one of its inalienable rights.

A definition of terms sometimes conduces to a better understanding. When I speak of branch banks, I distinctly eliminate what I regard as bank offices. A bank in a city finds its location perhaps somewhat removed from its depositors, due to the shift of business just as in Philadelphia, business has moved up around Broad Street from Second. Such a situation demands that a bank in order to accommodate its patrons must establish offices in different parts of the city. That decidedly is not branch banking. It is simply the extension of the parent bank for the accommodation of its own customers, and is unit banking with service extended necessary to take care of the bank's business. The law that grants the privilege to banks to expand their business area and have an office outside of the four walls of the parent institution for the convenience of their customers is not a law for branch banks at all. It is simply permission granted to our unit banking system to meet the requirements of the changes of the location of business activities in our various municipalities. A branch bank is an adjunct operation outside of the home city of the parent bank.

The experience of years is usually a wise guide in business affairs. After over 65 years of experience, dating from the inauguration of the national banking system, no American Bankers Association, at any of its sessions, has declared for branch banking and its only recorded action is in opposition to that system.

The laws of our States on this subject are equally conclusive. In six States the law is silent. Twenty States do not permit branches or even branch offices. Twelve States permit branch offices only in the home city and county of the parent banks. This makes 32 States of legal inhibition of branches and only 10 States permit the system.

Before we depart from a banking policy that has been voiced in legal statutes as the deliberate conclusion of our people after years of trial, we should pause for a moment at least before a "Stop, Look, and Listen" signal.

The United States Constitution has been the one charter under which free government has permanently survived. It sufficed for the needs of 3,000,000 people on a seaboard line. It sufficed for the growth of a great nation over a continent's expanse. It suffices to-day for over 100,000,000 people, with arms stretching out over two seas. It survived the vicissitudes and changes, needs and wants of over 130 years of progress of the greatest Nation on earth, with only four fundamental changes up to the adoption of the eighteenth amendment.

This Constitution that has served so well, under which has been written the greatest story of progress, educational, industrial, religious, and agricultural is entitled to the greatest reverence and should not be lightly thrown aside for a new form of government.

Parallel this illustration with the banking system of America, a system of unit banks under which this country has reached a prosperity greater than any nation on earth, until our pay roll exceeds the pay roll of the rest of the world combined, a system under which we have taken more individuals without means and without capital and, by our local banking credit, developed more successful men of every kind of avocation, not only than any other nation on earth, but of the whole world combined. With this splendid picture of happiness and improvement before me, I hesitate before I take a leap in the dark and adopt the European system of either chain banking or branch banks.

Certainly, judged by results, our unit banking system has been more of its brother's keeper than that of any other nation, and makes the student ask, "What is the complaint against the unit bank that has done so well and why change?" Restlessness is not always progress, and copying the systems of the bankrupt nations of Europe is not necessarily a forward step. We have won our place as the creditor nation of the world. Let Europe copy our system.

I once heard a speech on individualism as the source of progress; government ownership the beginning of decay. I delivered it, so of course I heard it. It is the individual who does things, not the masses. You may have looked upon some beautiful painting, like that of the Sistine Madonna. An individual painted that picture, the masses never painted a picture. You may have seen a magnificent statue, harmonious in all its proportions. An individual carved that statue; the government never carved a statue. The masses never made an oration, penned a poem, shaped a cathedral, invented a machine, nor discovered a law of gravitation. It is individuals who take these steps of progress alone, and in so far as we curb individual effort and individual initiative, we retard progress. The reason why America has given us the sewing machine and the electric light, the harvester and reaper, telephone and telegraph, flying machine, and radio and the electrical marvels of the world, is because our individuals have been the captains of their own souls and have not become mere routine automatons of gigantic enterprises. The man who is head of a small institution develops better than the man who is a mere departmental tool of a gigantic corporation. Not that these great enterprises are not necessary. They are profoundly necessary in America today as the leading nation of the world and the hope of civilization. I, for one, most strongly advocate them, but I call attention to the fact that the big corporations, especially the large banks of our great cities, are drawing on the country institutions of the Middle States and the South and the West and New England, for their Presidents and their Vice Presidents, men who have developed not in branches, but in smaller independent institutions. Numerous instances could be cited, but they might make odious comparisons.

The distinguishing feature of America's financial system has been its numerous independent, individual banks. This fact has stood out in a marked contrast to the European system. America has over 24,000 practically independent banks, each locally owned and managed by a local board of directors and officers who use the funds of the bank legitimately for the development of the community. Contrast this with Great Britain that has 23 main banks and 9,476 branches, and with France with 19 main banks and 1,351 branches.

This local banking system of ours has been one of our greatest resources and has contributed to America's development and prosperity. The credit of these institutions has been extended to the needs of worthy and enterprising individuals whom the officers and directors of the various localities personally know and in whom they had confidence. Many a poor boy through credit extended by his local bank has become a successful merchant, manufacturer, or professional man. On the contrary, in the countries across the sea where the bank is a mere cold-blooded proposition, individuals do not find it so easy to receive accommodations as they do here, where personal character, abilities, and ambition are regarded as assets. There is scarcely a community in the country where an illustration can not be found of some worthy individual with ability and without capital who has been able, through the help extended him by his local country bank, to make a success in life and add to the development of his country. It has been this personal, humane feature of America's banking system that has made it a motive power for progress such as the world never before saw. The reason for this is fundamental. It is founded upon the law of wealth as certain as the law of gravitation.

It is a somewhat antiquated political economy that imputes value to anything per se. Aside from a few of the fundamental metals and minerals, like gold and silver, diamonds and coal, there is no value in any material thing. There is no value in the hotels, lands, homes, public buildings, docks, wharves, and street-car lines of any municipality—say, for instance, Atlantic City. They are not worth a farthing. Their value and their wealth lie solely in the brains of Atlantic City's citizens, and if all the people in Atlantic City should leave that city and none ever return to take their places, Atlantic City as a deserted village would not be worth the attention of the tax gatherer. Its wealth would depart with the brains of its departing citizens. It is the brains of the individual, therefore, that are the asset of any nation, and just as you develop the individual, you add to wealth and prosperity.

The independent banking system of our country has fitted in admirably and practically with this philosophy. It has worked with the individual and helped him to grow industrially, educationally, inventively, and commercially. It has worked with him because he was a neighbor and an acquaintance and the bankers knew and trusted him and he in turn cooperated therewith. He rose to success through the help of his local independent bank, and rarely would have had that opportunity had he depended upon a bank in some large center, because he would not have known the bank and the bank would not have known him, and credit extension would have been well-nigh impossible. In the little town of Roebing, N. J., on the Delaware, Carl Roebing, then the head of the great John A. Roebing's Sons Co., organized a little bank that has deposits to-day of a million dollars. It admirably serves that community. It helps to build its homes, and to finance its merchants and public improvements. The bank takes a pride in this work, a work of service because it is a part of the life of the community, and it touches elbows with its needs and its wants, with its aspirations and its prosperity. If that bank was owned by a Chicago corporation and was one of a great chain system, this personal touch with the little village of Roebing would be lost and its entire relation to the community would be changed. The Roebing bank would no longer be the Roebing Bank but the bank of a foreign landlord and its interest in individual local enterprises would diminish and the plants of purely local and community pride and development would deal with a foreign instead of local credit. The chain stores—I do not criticize them nor claim they do not serve a useful purpose—have almost entirely eliminated the local merchant who dealt in the same commodities they do but they are like exotics among the native flowers of the garden. The branch banks would eliminate the local banks as surely as the chains are eliminating the local merchants.

The system of chain or branch banking is contrary to the spirit of American independence which prompted us to throw off the vassalage to a foreign government and our local communities would resent becoming vassal and tributary to a metropolitan banking institution, however fine. We, country bankers, and we are largely in the majority, do not object to selecting metropolitan banks as our correspondents. We seek their advice, we trust them with our deposits and if the Federal reserve system would pass away so that we could give them all of our deposits we would, but we do not propose to become tributary to their imperial will or become a branch of their great institution so that our community can be drained of the idle balances of our people to feed some other section of the country. Do not misunderstand. The resources of the local banks are always available for all in time of need but not as a branch under some one else's command, but as an independent sovereign, contributing of its own free will. Metropolitan banks as correspondents make a system that has all of the advantages and none of the disadvantages of the branch-banking policy. On the board of the bank with which I am associated are the leading citizens of that community. They take a pride in that institution. They give it their advice and deposits and term it their bank. They serve it faithfully and well but not for one moment would those men serve as the vassals in a branch bank or in a chain bank. Under the branch-banking system, the country would lose the service of such men as I speak of in its financial affairs, a most valuable asset, and the loss of the services of thousands of local directors throughout this country would be a nation-wide catastrophe.

Divison of the Central Hanover Bank & Trust Co. well said: "In banking nothing can take the place of the man on the ground who knows local conditions and the man with whom he is dealing and has the power to make his own decisions under a responsibility only to resident ownership control."

The branch-banking system is European not American. The unit system is American not alien or foreign. In England everything is tributary to London,

in France to Paris, in Germany partially to Berlin but with a wholly different picture, where the bank becomes a partner in an industrial enterprise.

None of those systems could serve our needs so well as our present unit system. In none of those countries are their farmers like our farmers or their small merchants like our merchants or their small manufacturers like ours. It has been well said that the feudalistic overlord system has no place in American banking where the people want to deal with bankers of their own community in an institution whose stock is owned by their own neighbors and friends. May God long postpone the day when this splendid asset of Americanism ceases to dwell in the American heart. The American is not willing to forget his banking independence any more than his forefathers were willing to forget their political independence.

Two recommendations have recently been advanced for branch banking, one is that it would improve the mechanics of banking, creating a highly specialized body of experts who could give the branches the benefit of advice from the parent institution.

The answer to that is most manifest. It fails to consider the human side of the banking function. A bank is a personal institution. It does not sell goods or manufacture material products, it deals exclusively with persons and their possessions and thus it can only be wisely administered by people on the ground, familiar with local conditions. Moreover, the correspondent banks willingly and gladly give advice on the mechanics and operations of successful banking but more than that the A. B. A. furnishes to every institution a wonderful set of pamphlets upon all phases of banking formula and operations that can not be surpassed by the experts in the parent institution, wide-awake, perhaps, but a long distance away.

The second argument, which grows out of the too many failures of banks, is advanced in a most constructive and judicial way by a distinguished public official. This phase of the situation is presented with the suggestion that if these institutions which have failed had been tied to a stronger parent that unfortunate banking story might not have been written. The banks in question, however, upon analysis of their failure are found to largely small institutions in localities where perhaps no parent bank would want a branch, and the failures largely were due to a deflation of values in agricultural centers for which bank management was not responsible and over which it had no control. The best banking in the world could not fail to be affected in a period of industrial or agricultural depression or in a stock market crash that drags down and makes bankrupts out of those formerly prosperous. In any country, under any system and under any management, banks would suffer under this condition of affairs. The remedy for hard times and general economic depression is not to be found in branch banking any more than the purity of a stream is improved by the storage of its waters by dams and reservoirs.

When the Federal reserve system was inaugurated, its advocates said, and sincerely said, that it was panic proof, that cheap credit hereafter would always be available, that it would stabilize conditions and that money rates would always be reasonable, but under that system, we recently had average higher interest rates than in a long period in our history, credit was scarce and dear, we had a stock market panic utterly unnecessary and to-day we have industrial business depression and non-employment. This boasted banking system did not fulfill the prophecy of its sincere proponents and no banking system can escape the consequences of the laws of trade and commerce.

Allied to the branch banking policy, there had developed a system of holding companies for the ownership of bank stock and the control of the banking institutions. I trust I am not unfair when I say that this system of chain banking through holding companies is conceived in a spirit of illegality. It clearly violates the laws, both national and state, as they now exist against branch banking. A holding company of Chicago, as an illustration, might own banks in New Jersey, in Pennsylvania, and in other states where the law forbids branch banking. These corporation owned banks would be linked together and would really become the branches of a parent company and the anti-branch-banking laws will thus be nullified and the holding companies would not be under the jurisdiction of the Comptroller of the Currency or Banking and Insurance Commissioners.

Tremendous publicity and propaganda have been utilized to favor this new system. It changes the whole character of our banking policy, creates a foreign owner in the form of a corporation that is impersonal and resident in some metropolitan center controlling the functions of some far distant community bank, destroying their credit humanity and ability to serve their community. The

bank ceases to be owned by the people among whom it is located and is no longer their possession. One of these holding companies through its ownership of bank stock controls one of the largest banks in the world. This bank had at one time 289 branches in one state alone. A local bank, owned by such a corporation becomes a stranger in the community and that psychological asset called confidence which binds the bank and the community together is destroyed. The *Financial Chronicle* of October, 1927, well said:

"Credit is a commodity more important to the people than ordinary commercial products. Tying strings to 30,000 banks and putting them in the control of a half dozen companies certainly would not be in the public interest. The independent bank is of immense value to the country and should be preserved at all hazards. Every local merchant and manufacturer is entitled to credit according to his deposits. The creating and maintenance of locally owned and operated banks should be held sacred. The organization of local credit being free business outside of the bank will contract or expand in accordance with the average profits that business can earn. Thus the community and local banks go up or down together. To sacrifice this freedom to initiate new business not only by so-called controlled credit but by means of retaining at home the earnings of its own organized credit, must prove a detriment to a natural progress and prosperity * * * Ownership by a holding corporation * * * pumps the profits from the (local) reservoir and adds nothing in return. Depositors in these local banks now about to be corralled by holding companies are not asking for this change and are loath to see the stock of their local banks go into foreign and unknown and impersonal hands. Local bank stock should be kept at home."

In New Jersey we held up our hands and said to these holding corporations, "Thou shalt not enter" and we passed an act, still upon the statute books, that no corporation should own the stock of a bank or trust company of more than 10 per cent and we have teeth in that law that makes it effective.

When the Federal reserve system was created, in order that it should not become centralized, it was divided into 12 districts. The act went further and provided that directors should be voted for by classes so that a Federal reserve bank is always beyond the control of a majority or combination of the banks of the district, but the holding company policy threatens this safeguard against centralized monopoly. It could own enough of the member banks in a Federal reserve district to absolutely control the directorships thereof and control rediscount rates subject, of course, to the reserve board at Washington, and use the powers of the Federal Reserve Bank for its own corporate advantage. The possibilities of such a gigantic corporation are terrifying.

But aside from the uneconomic, un-American, feudalistic spirit of branch or chain banking, it is amateurish in its daring. Under it would arise the greatest of all trusts, a money trust, utterly abhorrent to the American people who are our masters. This is a case where angels fear to tread.

The chain system boasts of its progress. The other day I received a pamphlet declaring that this movement could not be stopped any more than old King Canute could stop the rising tides of the sea. I wonder if this pamphlet ever read American history? He seems to forget that whether wisely or unwisely America will not permit concentrated power in any enterprise or in any vocation and when the American people take the bit in their teeth and attack a monopoly or trust, they always go to extremes and endanger the welfare of the country and do injustice to the object of their wrath. We have seen our railroads attacked, I think unjustly, until the hysteria of the hour 40 per cent of them were driven into receiverships or bankruptcies. We have seen our industrial combinations, manufacturing and public utilities, attacked with a vehemence that sent some of their officials to jail and injured their progress. I am sure in many cases it was unfair and unjust, indeed, in most cases. To-day Congress is investigating and threatening holding corporations of railroad stocks and the Interstate Commerce Commission is raising a red flag to frighten the people about a danger that to me does not really exist. To-day Congress is investigating the mergers of public utilities and the holding companies of their stocks and spreading a propaganda of socialistic opposition that will end either in Government ownership or in drastic laws that will injure the prosperity of these great and useful enterprises. The man who fails to learn the lesson taught by the resentment and anger of the American voter against concentration of wealth or power is indeed an amateur and whether he is right or whether he is wrong in advocating branch or chain banking he invites a deluge which will overwhelm him to his sorrow if not to his ruin. These men are like the blind traveler who walks over the precipice. Branch banking may become our policy,

chain banking may become our policy (I do not think it will), but when it does the American people will rise up in their wrath as surely as the rising of the sun and in their unreasoning and unjust indignation will visit a vengeance upon our banking system and that will hamper constructive progress and seriously injure our banking institutions and precipitate a financial panic such as will make the advocates of this policy rue their folly and their blind obliviousness to American resentment of centralized power.

At this point, allow me to say that I am not arguing as to the wisdom of this policy, but like Elijah, to whom nobody would listen, I am pointing out to you from the history of this country what we should all foresee and what we should hesitate to invite—the disastrous consequences that will follow a concentration of money power in defiance of the independent spirit of the American voter.

Let us not try to make our banks too big by reaching out into territories where we do not belong, nor try to stretch our holding company chains even if we have the power. The sword of Damocles hangs over our heads and it will surely fall. I would rather be a small bank with the love of my community than a too large institution with the resentment of my fellowmen.

I have written strongly on this subject, perhaps too strongly, because I feel strongly. Ours is a nation of depositors. The bank, like the church, is a community enterprise, its stock a community investment, its success a community pride. It is a community temple where the saver and the borrower meet in a home they call their own, whose vestal fires must be kept alive by the trusted financial priests of their own hearthstones.

Very sincerely yours,

E. C. STOKES.

The following chapter from the Laws of New Jersey are printed herewith:

[Laws of 1928, ch. 273]

AN ACT To regulate the purchase and owning by certain corporations of capital stock of banks, trust companies, and national banks doing business in this State and in certain cases to limit and prohibit the purchase and ownership of such stock and to provide punishment for violation thereof

1. Any corporation, other than corporations specifically exempted from the provisions of this act, which now owns any of the shares of the capital stock of any bank or trust company or national bank, doing business in this State, and which shares of stock are not registered in the name of such corporation on the books of the bank or trust company or national bank issuing or which issued the same, shall within 60 days after the taking effect of this act cause the said shares of capital stock to be transferred on the books of such bank or trust company or national bank so that the same will be issued to and be registered in the name of such corporation, and shall keep the same so registered in the name of such corporation while it continues to be the owner of such stock.

2. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns any shares of the capital stock of any bank or trust company or national bank doing business in this State, shall not cause or permit any such shares of capital stock to be issued to or to be registered on the books of the bank or trust company or national bank issuing the same, in any name or names other than the name of the corporation so owning such shares of stock.

3. Any corporation, other than corporations specifically exempted from the provisions of this act, which now or hereafter owns more than 10 per cent of the number of shares of the capital stock now or hereafter at any time issued and outstanding of any bank or trust company or national bank, now or hereafter doing business in this State, shall not purchase more than 10 per cent of the number of shares of capital stock at any time issued and outstanding of any other bank or trust company or national bank, now or hereafter doing business in this State.

4. Every bank and trust company doing business in this State, as to any of its shares of capital stock now or hereafter registered on its books in the name of any corporation and as a condition precedent to permitting such stock to be voted upon at any stockholders meeting, shall take and require from such corporation a statement in writing, dated and made on a date not more than seven days, including Sundays and holidays, prior to the date of such meeting or any adjournment thereof, stating (a) the number of shares of the capital stock of any and every bank, trust company, and national bank doing business in this State, owned by it on the date of taking effect of this act, and the names and addresses of the same; (b) the number of shares of the capital stock of any and every such bank,

trust company, and national bank purchased by such corporation after the taking effect of this act and the names and addresses of the same; (c) the number of shares of the capital stock of any and every such bank, trust company, and national bank owned by such corporation on the date of such statement and the names and addresses of the same; (d) the date or dates of purchase of all such shares of stock specified in (b) and (c) above; (e) the total number of shares of capital stock of any and every such bank, trust company, and national bank issued and outstanding on the date or dates of such purchase or purchases and on the date of such statement; (f) that such corporation has not after the taking effect of this act purchased any of the shares of the capital stock of any bank, trust company, or national bank in violation of provisions of section 3 of this act. If such statement is not furnished, such stock shall not be voted. If it appears from any such statement that such corporation on the date of such statement owned shares of the capital stock of any such bank, trust company, or national bank, purchased in violation of the provisions of section 3 of this act, the said shares of stock shall not be voted at such stockholders meeting. If it appears from any such statement that such corporation has violated the provisions of section 3 of this act, such bank or trust company shall inform the attorney general and the prosecutor of the pleas of the county in which its principal office is located of the contents of such statement.

5. Every bank and trust company doing business in this State, as a condition precedent to transferring any of its shares of capital stock into the name of any corporation, shall take and require from such corporation and such corporation shall make and deliver to it, a statement in writing, dated and made on a date not more than seven days, including Sundays and holidays, prior to the date of offering the certificates of stock for transfer, stating the particulars required by subsections (a) to (f), inclusive, of section 4 of this act. Until such statement is furnished such shares of stock shall not be transferred. If it appears from any such statement that such corporation on the date of such statement owns shares of the capital stock of any bank, trust company, or national bank doing business in this State, purchased in violation of the provisions of section 3 of this act or that the shares, transfer of which is requested, were purchased in violation of section 3 of this act, such stock shall not be transferred. If it appears from any such statement that such corporation has violated the provisions of section 3 of this act, such bank or trust company shall inform the attorney general and the prosecutor of the pleas of the county in which its principal office is located of the contents of such statement.

6. Every bank and trust company doing business in this State, as a condition precedent to paying dividends upon any of its shares of capital stock registered on its books in the name of any corporation, shall, on or after the date of each and every declaration of dividends upon such stock, take and require from such corporation and such corporation shall make and deliver to it a statement in writing, stating (a) the information required by subsection (a) of section 4 of this act; (b) the information required by subsection (b) of section 4 of this act; (c) the number of shares of the capital stock of any and every bank, trust company, or national bank doing business in this State, owned by such corporation on the date of declaration of such dividends; (d) the date or dates of purchase of all such shares of stock specified in (b) and (c) above; (e) the total number of shares of capital stock of any and every such bank, trust company, and national bank issued and outstanding on the date or dates of such purchase or purchases and on the date of declaration of such dividends; (f) the information required by subsection (f) of section 4 of this act. If any such statement is not furnished within six months after the date of declaration of such dividends, they shall be forfeited to and become the property of the corporation declaring the same. If it appears from any such statement that such corporation on the date of declaration of such dividends owned shares of the capital stock of any such bank, trust company, or national bank purchased in violation of the provisions of section 3 of this act, the dividends which would have been payable with respect to any such stock shall be forfeited to and become the property of the bank or trust company declaring the same. If it appears from any such statement that such corporation has violated the provisions of section 3 of this act, such bank or trust company shall inform the attorney general and the prosecutor of the pleas of the county in which its principal office is located of the contents of such statement.

7. Any corporation which purchases shares of stock of any national bank doing business in this State, in violation of the provisions of section 3 of this act shall not vote such shares of stock, nor shall it cause or permit the same to be

transferred to it on the books of said national bank nor shall it take or receive any dividends declared on such shares of stock.

8. Whenever the attorney general of this State has reason or information to suspect or believe, or whenever it appears to the attorney general by complaint or otherwise that any stock of any bank or trust company doing business in this State has been purchased in violation of the provisions of this act, he shall, by proceeding in the court of chancery of this State, procure determination as to such purchase. Such proceeding shall be by petition in the name of the State of New Jersey, and in which the bank or trust company whose stock is involved and the registered holder of such stock and any other person or corporation having any interest therein to the knowledge or information or belief of the attorney general shall be parties defendant, and of which they shall receive such notice as the court shall prescribe. Notice to any absent defendant shall be given according to the statute and rules of said court in such case made and provided.

In any hearing thereon the burden of proof that such stock has not been purchased in violation of the provisions of this act shall be upon the registered owner of such stock or upon any other party thereto claiming to own the same.

If it is determined that such stock has not been purchased in violation of the provisions of this act, it shall be so decreed.

If it is determined that such stock has been purchased in violation of the provisions of this act, it shall be so decreed, and it shall also be decreed that any and all dividends thereafter declared with respect to such stock while such stock is so owned shall be forfeited to and become the property of such bank or trust company, and that while such stock continues to be owned in violation of the provisions of this act it shall not be voted at any stockholders' meeting. Upon any such determination the costs of such proceedings and any counsel fees allowed by the court may be decreed to be paid by the registered owner of such stock or by any other party claiming to own the same.

If after such determination such stock ceases to be owned in violation of the provisions of this act, its status with respect to this act may be determined and its right to dividends and voting may be restored upon petition in said court by the registered holder of such stock or other person or corporation interested therein, of which such notice as may be prescribed by the court shall be given to the attorney general and to the bank or trust company whose stock is involved. If it is determined that such stock has ceased to be owned in violation of the provisions of this act, it shall be so decreed and also that all dividends declared after cessation of such ownership shall be paid without interest, and that such stock may thereafter be voted. Upon any such determination the costs of such proceedings and any counsel fees allowed by the court shall be decreed to be paid by the petitioner.

9. The stock ownership permitted or prohibited by this act shall be construed to mean and include any ownership, owning, holding, having, or controlling directly in any way whatsoever, or indirectly in any way whatsoever, through any agent or other representative.

10. The words "purchase," and "purchased," as used in this act shall be construed to mean and include any purchase or other acquisition of ownership, or of any right, title, or interest, directly or indirectly, in any way whatsoever, or indirectly in any way whatsoever, through any agent or other representative.

11. Whenever in this act any statement in writing is required to be made by any corporation, such statement shall be made in the corporation's name, shall be under its corporate seal, and shall be signed for the corporation by its president, vice-president, treasurer, or secretary.

12. Any corporation guilty of making in whole or in part any false statement required by the provisions of this act shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

Any corporation guilty of violating any of the other provisions of this act shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

The making by any corporation of any false statement required by this act shall be deemed to be also a false statement by the individual officer or officers of such corporation making the same, and of the individual director or directors and officer or officers of such corporation ordering, or doing, or permitting the same, and he or they shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

Any violation by any corporation of any of the other provisions of this act other than the making of such false statement, shall be deemed to be also the violation of the individual officer or officers, director or directors, ordering or

doing, or permitting such violation, and he or they shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

In addition to the penalties otherwise provided in this act for such violation or violations, the charter of any corporation making any false statement required by this act, or violating any of the other provisions of this act, shall be revoked in appropriate proceedings by the attorney general of this State; and in case of a foreign corporation authorized to do business in this State its permission granted to do business in this State shall be revoked in appropriate proceedings by the attorney general of this State.

13. Any person or persons who for the purpose of enabling any corporation to evade or attempt to evade the provisions of this act shall permit any shares of the capital stock of any bank, trust company, or national bank, doing business in this State, owned by any corporation to be held or registered in his or their names, shall be guilty of a misdemeanor and upon conviction thereof shall be punished accordingly.

14. The provisions of this act and the penalties thereof shall not apply to the following corporations, viz.: Banks and trust companies organized under the laws of this State and national banks doing business in this State, nor to such banks, trust companies, and national banks while acting in a fiduciary capacity representing any individual or individuals or the estate of any individual; nor to any other corporation the entire capital stock of which is owned by or held in trust for the shareholders of any bank or trust company organized under the laws of this State or any national bank doing business in this State, in the same relative proportion as the stock held in said bank, trust company, or national bank.

15. If any part or parts of this act shall be held to be invalid or unconstitutional, the validity of the other parts hereof shall not thereby be affected or impaired.

Winona, Minn., October 22, 1930.

HON. LOUIS T. MACFADDEN,
*Chairman, Committee on Banking and Currency,
House of Representatives, Washington, D. C.*

DEAR SIR: It occurred to us that you might be interested in receiving a copy of a letter which we are sending to the American Bankers Association with respect to the recent branch bank resolution passed at their Cleveland convention.

The letter appears self-explanatory. It is the feeling of the committee that the resolution does not represent the wishes of anything like the majority of the members of the American Banking Association, and we are simply challenging them on their standing.

It is not my purpose in this letter to assign any argument for or against branch or unit banking; however, it does appear that the demand for branch banking is coming entirely from the bankers themselves and not from the public, since the present institutions certainly are receiving satisfactory patronage, and since it is a demand from the bankers it appears to us that their wishes in the matter should be known.

Very truly yours,

J. R. CHAPPELL,
Vice President.

MINNESOTA BANKERS ASSOCIATION,
Minneapolis, Minn.

The AMERICAN BANKERS ASSOCIATION,
New York, N. Y.

GENTLEMEN: The action taken by those in attendance at the recent annual meeting of the American Bankers Association with respect to branch banking has come to the attention of this committee, which, for your information, was created at the last annual meeting of the Minnesota Bankers Association to preserve the interests of the independent banks.

The purpose of the resolution on branch banking as adopted appears quite evident. It apparently will be an authoritative expression to legislative bodies, particularly to Congress in an attempt to secure the enactment of laws beneficial to those wishing branch banking in its broadest scope.

It is not our purpose to advance any arguments for or against the resolution, however, we feel that an issue not only associated with the welfare of the majority of your members but probably affecting their very existence should not be

decided by the few representatives who happened to be in attendance at the annual meeting.

Many complaints are heard relative to the action taken. It seems certain that it is not the representative expression of the bankers of this country nor of your members, and we believe in fairness to those who have supported your association for so many years that a question of such importance should be decided by the entire membership.

We should like to suggest therefore that you mail a questionnaire to every member requesting an expression on the resolution passed, advancing no arguments for or against, and we are certain the decision will be acceptable.

Knowing that considerable expense is involved and thinking your budget might not permit the expenditure, if the plan is accepted and funds are not available for the purpose, this committee will gladly undertake the raising of the necessary amount upon your request.

We believe this letter suggests fair and impartial action, and we sincerely trust that it may receive favorable consideration and support. A copy of this request is being mailed to some of your officers and committee members, certain interested Members of Congress, and to certain publications.

Assuring you of our appreciation of its consideration, we are

Very truly yours,

COMMITTEE ON UNIT OR INDEPENDENT BANKING,
MINNESOTA BANKERS ASSOCIATION,
J. R. CHAPPELL, *Winona, Chairman.*
N. J. PETERSON, *Little Falls.*
EDWIN BRICKSON, *Adrian.*
J. J. RACHAC, *Faribault.*
OLUF GANDRUD, *Benson.*

OCTOBER 30, 1930.

Mr. J. R. CHAPPELL,
*Chairman Committee on Unit or Independent Banking,
Minnesota Bankers Association, Winona, Minn.*

DEAR MR. CHAPPELL: Your letter of October 17, addressed to the American Bankers Association, was received at the general office and has been forwarded to me as president of the association. Your suggestion is that the association, "advancing no arguments for or against," mail a questionnaire to every member, requesting an expression of their views upon the resolution with respect to unit and branch banking adopted at the recent general convention at Cleveland.

I doubt very much the propriety of such action. Although myself a unit banker and in sympathy with the maintenance of that system of banking, I feel that any action toward ascertaining and determining the policy of the association upon such an economic subject must be in accordance with and not in defiance of its established law and methods of procedure.

Under the constitution of the American Bankers Association—and in what follows, I am quoting our general counsel, Thomas B. Paton—"the supreme authority of the association is vested in the general convention" and the constitution provides (Art. IX, Sec. 1.) that "Decisions and authorization of appropriate action upon matters of economic, financial, or legislative policy or upon any other subject, shall be made by vote of a majority of the delegates present and voting at any session of the general convention."

The above is the sole method provided by our constitution by which the general convention, which is the supreme authority, makes its decisions upon matters of economic policy. True, section 2 of Article IX of the constitution provides that "in the interim between sessions of the general convention decisions upon matters of policy and action not inconsistent with any previous decision of the general convention shall be made in the manner provided by the by-laws" and By-Law XI in section 3 provides, among other methods of ascertaining the policy of the association between sessions of the general convention, that "it shall also be within the power of the president of the association when in his judgment occasion warrants, and if authorized by four-fifths of the administrative committee, to submit or authorize the submission of any question of policy by mail to the entire membership of the association, and if replies are received from the majority of the members and if three-fourths of the replying members concur, the policy and action of the association shall be determined accordingly, subject only to review and revision by the general convention."

Section 3 further provides that "All questions of policy submitted to referendum vote of the entire membership * * * shall be accompanied by a brief statement of facts and reasons on both sides of the question." Furthermore, section 4 of this by-law provides that "all questions within the jurisdiction or scope of investigation of the economic policy commission shall, when practicable, be submitted to the commission for its investigation, findings, and recommendations before being presented to the * * * entire membership for referendum vote. The presentation of such questions * * * for referendum vote shall be accompanied in each case by the conclusions and recommendations of the commission." But this authority for referendum, in addition to being entirely different in form to what you suggest, does not in any event apply in this case because it is limited to questions of policy which arise between sessions of the general convention and which are not inconsistent with any previous decision of the general convention.

The subject of unit, chain and branch banking was advertised well in advance through announcement of the president mailed direct to every member as one of three major subjects which would be debated and acted upon at the Cleveland convention and, further, all delegates had notice through the columns of the American Bankers Association Journal that this important subject was to be on the program for discussion and decision. On the convention floor the resolution was in fact debated at considerable length prior to the voting of the delegates.

The American Bankers Association having at its Cleveland convention attended by a large representative of delegates from all sections and after full discussion, adopted a resolution on the subject of unit and branch banking, such policy becomes the established policy of the association, legally and constitutionally declared, and our organic law provides no method by which such policy can be changed other than by vote of the delegates at a subsequent general convention.

What you are asking, in effect, is that the association, through its responsible officials and without authority of the general convention, which was just declared its policy upon this subject, initiate an inquiry of all the members whether or not they are in accord with such policy and having for its purpose the discrediting if possible of the validity of such declared policy.

You will see from the foregoing statement of facts, therefore, that a compliance with your request would not only be unauthorized but would be improper as in violation of our organic law.

Very truly yours,

ROME C. STEPHENSON,
President American Bankers Association, South Bend, Ind.

MINNESOTA BANKERS ASSOCIATION,
Minneapolis, Minn., November 28, 1930.

MR. ROME C. STEPHENSON,
President American Bankers Association, South Bend, Ind.

DEAR MR. STEPHENSON: Acknowledgment of your letter of October 30 rejecting our suggestion that a referendum be submitted to the members of our association in connection with branch bank resolution adopted at Cleveland has been delayed until it could be presented to our committee for consideration.

The delay, however, has given you an opportunity to appraise the comments and expressions from various members and financial magazines. It must have come to your attention that there is an overwhelming demand for such a referendum, a concurrence for which has prevailed among all financial editors who indicated sufficient interest for expression.

The interest displayed and the requests received make it mandatory that our committee arrange for some sort of a referendum, and we believe there is an opportunity for the American Bankers Association to remove some of the criticism directed on account of its action by undertaking this task.

You desire that the membership, due to some technical objection, accept as final, official, and conclusive the resolution as adopted at the Cleveland convention. May we inquire if the past association officials and committees have so acted in accepting resolutions adopted at the preceding conventions as final and conclusive. If so, permit a few facts. With several resolutions opposing branch banking appearing on the official record, your most important and active committee, the economic policy commission, appointed in 1929, submitted an exhaustive report at the Cleveland convention indicating a favorable position toward group

and branch banking. All of this was in spirit contrary to the previous distinct expressed wish of the membership and against the official records of the association. This report without a doubt led to the adoption of the branch-bank resolution.

Has the result accomplished some selfish interest or will the committee continue study and investigation of the subject? If the latter is true, and we hope it is, might you not suggest to this committee that in the continuation of their work and in order to be fully informed as to the wishes of the members that they submit an unofficial questionnaire on this all important question. The results thus obtained will be accepted as entirely satisfactory to our committee and other interested parties and should serve as a basis for future association action.

Knowing that you have a sincere interest in the welfare of the association, we hope that you will not endeavor to find some technical or organic objection to the suggestion herein contained and on the contrary will gladly and willingly do your fair share to eventually purge the record of an act adopted by a vote of approximately 150 members from a twenty thousand membership, and an act that may affect the future welfare and success of your association.

A copy of this letter is being forwarded to Mr. R. E. Heck, chairman of the economic policy commission.

We shall await an early reply.

Very truly yours,

J. R. CHAPPELL,
Chairman Committee on Unit or Independent Banking,
Minnesota Bankers Association.

SECURITY-FIRST NATIONAL BANK OF LOS ANGELES,
Los Angeles, November 29, 1930.

HON. LEWIS T. MCFADDEN,
Chairman Committee on Banking and Currency,
Washington, D. C.

MY DEAR MR. MCFADDEN: In compliance with your suggestion made when you were in Los Angeles a few days ago, I beg to submit herewith some suggestions with respect to the amendment of the national bank act:

1. *Capital Stock.*—At present it is not possible for a national bank to have an authorized capital stock in excess of the paid-in and issued capital stock. Under the state law in California a bank may have an authorized capital, only a part of which may be issued. In actual operations, in connection with the merger or consolidation of banks, we found it very advantageous in the old Security Trust & Savings Bank to have an authorized capital stock larger than the issued and paid-in capital stock so that the directors were in a position to authorize additional stock either for a stock dividend or for the exchange of stock in the case of a merger. If the authorized stock is large than the issued stock, the directors can from time to time sell stock pro rata to the old stockholders when it is desired to increase the paid-in capital stock. It may well happen that a bank may desire to increase its capital stock and add to its surplus account by selling the stock at an advance over the face value of the shares, giving to the capital stock the share value and to the surplus the difference between the share value and the sale price.

Authorization for the stock would, of course, be subject to the approval by the Comptroller of the Currency, as would the issue of additional paid-in stock out of the already authorized stock. If provision for authorized but unissued stock were made, there should likewise be a provision requiring the advertising of the amount of the paid-in capital stock whenever the amount of the authorized capital was advertised. This would obviate any possibility of the public being deceived in this matter.

2. *Real estate loans.*—Under the law as it at present stands, national banks may make loans secured by first lien on improved real estate not to exceed 50 per cent of the actual value of the real estate and not for a longer time than five years. The aggregate of such loans may be made in a sum equal to 25 per cent of the amount of capital and surplus of the association, or of one-half of its savings deposits, subject to the general limitations contained in section 5200 of the Revised Statutes. Loans on unimproved real estate are not permitted.

It would be a great help to the national banks in California if the aggregate amount which may be loaned should be raised to 60 per cent of the savings deposits and if the amount that could be loaned on any one property should be raised to 60 per cent of the actual value of the real estate. If choice had to be

made between these two, I think the raising of the amount of the individual loan would be the more helpful in meeting competition.

The 5-year limit seriously interferes with the making of installment loans on homes. Loans on homes to homeowners on a monthly payment basis, which included a steady reduction of principal as well as payment of interest, have always been regarded as a very satisfactory type of loan and is one which we believe could safely be made by national banks with their savings deposits. It is very difficult at the present time to get these loans on a 5-year basis. It would be far easier if installment loans on homes could be made with a 10-year limit.

There is an anomalous situation existing in connection with the amount that may be loaned on a particular piece of property. Trust departments in national banks, under a rule of the Federal Reserve Board interpreting section 11K of the Federal reserve act, Federal Reserve Bulletin, (vol. 6, pt. 2, p. 949), may lend the funds of a particular trust, when so authorized by the trust agreement, on real estate in accordance with the provisions of the State act, which would govern State trust company if it were acting as trustee under the same trust instrument. This means that in such cases a loan up to 60 per cent of the value of a particular piece of property is possible in California.

Savings deposits in national banks have increased rapidly in recent years and there is every prospect that they will continue to increase, both through natural growth and through the consolidation with national banks of State banks that have been engaged largely in lending on real estate. This situation, as you are aware, has already developed in California and I think we must anticipate that a similar situation will develop in the rest of the country, if the national banking system is to grow in the way you hope it will. If, for example, legislation should be enacted which will permit national banks to extend their branches within a determined trade area or within Federal reserve limits, the result desired by such legislation would be greatly facilitated by the amendments above suggested.

In connection with the increase in savings deposits in national banks and the consequent increase in real-estate loans by these banks, I noted an item in the Los Angeles Examiner of January 3, of this year, with the date line New York, to the effect that "Holdings of real-estate loans by national banks of the country as a group registered an increase of \$127,000,000, or 10 per cent in 1929 as compared with the preceding year. Realty loans approximated \$1,413,000,000."

The competition of building and loan associations throughout the country for the savings of the people is tremendously keen. The restrictions upon the national banks in the matter of lending upon real estate make it very difficult for us to compete successfully for many good loans. The competition with national banks comes not alone from building and loan associations in California, but from State banks which can lend up to 60 per cent of the appraised value for a period not exceeding 10 years and without any limit upon the aggregate amount of loans that may be made by a savings department or a savings bank other than the requirement of a reserve in cash.

If amendments such as these could be adopted national banks would be helped toward a fairer competitive position in comparison with State banks and building and loan associations.

I am quite aware of the prejudice with respect to the making of real-estate loans by national banks, a prejudice holding over from a time when national banks were purely commercial banks. That condition has been enormously changed. Practically all of the larger national banks are in reality doing a departmental banking business and many of the smaller banks are taking savings deposits, though possibly not lending them on real estate. There seems to be a feeling that a national banker can lend more successfully when he is not lending on real estate, but I do not quite know why this should be the case. Every country banker is lending daily to a very large extent on his judgment of the value of the realty holdings of his customers. Under the present situation the savings depositor in a national bank is really in a more precarious position than the demand depositor, due to the fact that if the bank finds itself pressed its demand depositors can insist upon payment, while notice is demanded of a savings depositor. Even if this does not take place, the demand depositors seem to be a little more in touch with the conditions of their banks and withdraw their money, to a certain extent, when difficulties are encountered, while the savings depositors generally do not do so to the same extent. This means that if the bank fails the bulk of the savings depositors are left with whatever commercial depositors still are in the bank, with only the poorest assets of the bank from which they can realize.

If at the same time it could be possible to segregate the assets of the savings department and give the savings depositors a first lien upon these assets the si'

tion, in my judgment, would be vastly improved. Loans on real estate could more readily be made and I suspect it would bring a more wholesome situation in many small banks that are now lending commercially upon real estate.

With kind regards, I am
Sincerely yours,

EDWARD ELLIOTT, *Vice President.*

FIRST NATIONAL BANK IN DALLAS,
Dallas, Tex., December 4, 1930.

HON. LOUIS T. MCFADDEN,
Chairman House Committee on Banking and Currency,
Washington, D. C.

DEAR CONGRESSMAN MCFADDEN: As you, of course, learned to-day, the First National Bank of Charlotte, N. C., suspended business this morning. One of our friends there wired us that the failure was not unexpected and grew largely, if not entirely, out of the bank erecting an office building costing \$1,850,000. It appears that the capital and surplus of the bank amounted to only \$700,000 and the deposits only about \$1,700,000.

As you probably know, the banking laws in some States provide that a State bank shall not invest in a building and fixtures in excess of a certain percentage of its unimpaired capital and surplus. One or two, I recall, limit the amount to 33½ per cent. I think any effort to fix a percentage lacks flexibility, but there ought to be something to restrain a national bank from doing what the Charlotte bank did, and it is my thought that Congress could very well afford to enact an amendment to the national bank act which would provide that in the event a bank should desire to expend more than 33½ per cent of its unimpaired capital and surplus for a bank building and fixtures it should first obtain the approval of the Comptroller of the Currency, or if thought desirable, the Federal Reserve Board. Perhaps some penalty should be attached, such as creating liability on the part of directors who voted for such an expenditure without first obtaining the approval of the comptroller or board, as the case might be. You will recall that there is a precedent for this in the amendment to the Federal reserve act which prohibits Federal reserve banks from erecting buildings for headquarters or branches in excess of a certain amount without the approval of Congress.

There could be no better illustration of the need of the legislation which I suggest than this case of the First National Bank of Charlotte, which put \$1,000,000 more than its capital and surplus, or, measuring it another way, more than its entire deposits, in an unliquid asset such as the building erected in this case.

This suggestion is submitted to you through no other motive than my desire to improve the banking situation of the country, a proposition in which I know that you and Mr. Pole, to whom I am sending a copy of this letter, are deeply and most unselfishly interested.

Very truly yours,

B. A. MCKINNEY.

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